

SEDCO
CAPITAL



SEDCO Capital REIT

Annual Report
December 2020

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Management Statements

It is our honor to present the H2 2020 semi-annual report of SEDCO Capital REIT to unitholders. This report highlights key activities, achievements, operational results and general views with regards to the REIT portfolio along with the financial statements for the period ended 31 December 2020. The SEDCO Capital REIT portfolio comprises 11 income generating assets, geographically diversified across the Eastern Province (45%), Jeddah (37%) and Riyadh (18%). The portfolio enjoys sectoral diversification across the entertainment (37%), office (33%), retail (20%), residential (6%) and hospitality (4%) sectors.

Despite the challenging market conditions facing the portfolio over the last 12 months, the average occupancy rate reached 94%, showing an increase from 92% one year ago. This is a result of the fund managers agile approach to responding to market changes in an efficient manner.

Properties leased to single tenant represent 67% of the current portfolio with long term leases permitting for stability, while 33% of the properties are leased to multi-tenanted with multiple lease agreements providing growth potential. The weighted average lease expiry (WALE) stood at 4.2 years.

The average value of the Fund's property portfolio, as valued by two independent valuers, was estimated at SAR 1,032 million as of 31 December 2020. The Net Asset Value per unit at fair value has slightly decreased, reaching SAR 9.4169 compared to SAR 9.8173 in December 2019. Such decrease was due to several factors, most notably the impact on rent receivables due to the approved policy to provide discounts to the tenants affected by the COVID-19 precautionary measures.

In terms of dividend distribution, the Fund announced a dividend distribution of SAR 0.555 per unit amounting to SAR 33,300,000 for the period from 1 January 2020 to 31 December 2020 which translates to 5.55% based on par value on annual basis, slightly below the targeted return as a result of the discounts granted to the tenants in response to the lockdown imposed on market due to COVID-19 precautionary measures.

In line with the Fund's strategy, the Fund Manager has been working on enhancing some of the assets under management. One key example is the Al Khalidiya Business Centre, where a parking structure and an additional leasing space have been added at a cost of SAR 18 million. This is expected to enhance the strategic positioning of the property and increasing demand for commercial space.

“ The global pandemic has continued to impact the real estate market in the Kingdom. The quality of our tenants coupled with our proactive approach to property and tenant management has allowed the portfolio to show resiliency during these unprecedented times. We believe that the real estate sector is undergoing a period of transformation, with long term impacts to be experienced, as consumer behavior shifts and the lines between traditional asset classes are redefined. Our strategy will remain market driven, and risk adjusted, with the agility that will allow us to continue to build value for the long term. ”

Abdulwahhab Abed

Chief Business Development Officer and Board Director

During 2020, the Fund Manager has received several requests from tenants for rent deductions, suspending or deferring their rental contractual obligations as a result of the ongoing impact of COVID-19. We would highlight, however, that the market sentiment has appeared to improve when compared to H1 2020. SEDCO Capital REIT Fund's Board of Directors has approved a discount policy to deal with such requests in a manner that protects the interests of both unitholders and tenants. The Fund Manager is continuing to monitor the market in order to distribute stable cash dividends according to the Fund's terms and conditions.

We would like to express gratitude towards our unitholders for their trust during these challenging times. We remain committed to efficiently managing our properties and proactively addressing operational risks and challenges, while capitalizing on growth opportunities for the portfolio.

Fund Name

SEDCO Capital REIT Fund is a public closed-ended Shariah-compliant traded real estate investment fund, established in accordance with the laws and regulations applicable in the Kingdom of Saudi Arabia and complies with the regulations and instructions of the Capital Market Authority (“CMA”).

Fund Factsheet

Fund Size Upon Listing	SAR 600 million
Number of Units Listed	60 million units
Fund Currency	Saudi Riyals (SAR)
Headquarters	Kingdom of Saudi Arabia
Operation Date	1 April 2018
Date of listing the Fund	1 May 2018
Fund Term	99 years following the date of listing
Target Dividend	6.10%
Actual Dividend as of Reporting Date (on an annual basis)	5.55%

Fund Strategy

Fund Objectives and Dividend Policy

Acquire developed and ready to use properties in order to generate regular rental income and distribute at least 90% of the Fund’s net profit to the unitholders throughout the term of the Fund. The Fund Manager is expected to announce dividends, record dates and distribution dates within 40 business days from the end of June and December of each calendar year. Dividends will be deposited within 90 business days of the announcement. Excluding capital gains from the sale of assets which may be reinvested for acquiring assets for the interests of unitholders.

Assets Targeted by the Fund for Investment

The Fund intends to achieve its objectives and enhance the value of shareholders’ capital by:

- Investing in developed and ready to use properties in order to generate regular rental income;
- Re-invest the annual retained earnings (10% of total annual income) and capital gains from property sales in developed and ready to use assets in order to generate regular rental income, upon distribution of at least 90% of the Fund’s net profit throughout the term of the Fund to the unitholders;
- Invest in low-performing assets, but promising, as the Fund Manager sees in view of their location or structural and design characteristics, in order to increase their operational efficiency and raise their rates of return more than those generated at the time of acquisition by modifying one or some of the characteristics such as design, leasing strategies associated with tenant mix and lease price, and reasons for use; and
- Invest no more than 25% of the Fund’s total assets value, according to the latest audited financial statements, in real estate development activities, whether owned by the Fund or not, or to renovate or redevelop those assets.

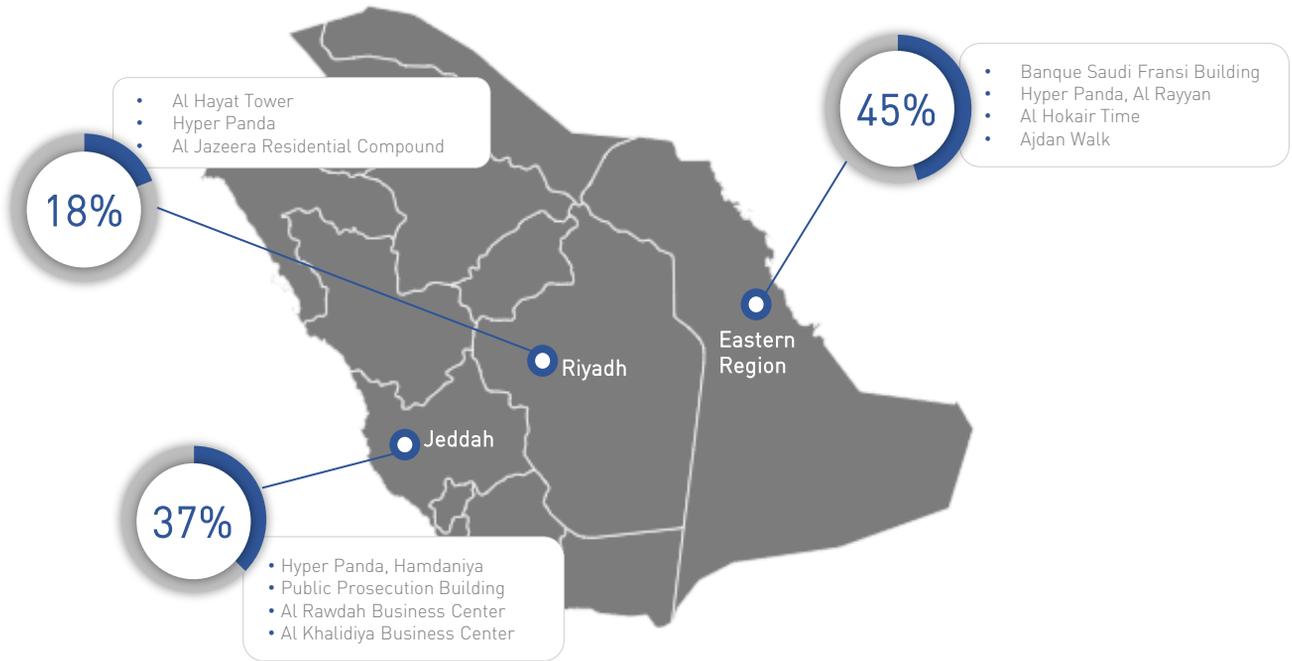
Fund Updates

- The occupancy rate reached 94% with an increase of 2% compared to December 2019;
- White Cubes and ValuStart valued SEDCO Capital REIT properties. As of 31 December 2020, the fair value of the Fund’s assets increased by 0.10% reaching SAR 1,032 million;
- The Fund’s cash balance amounted to SAR 20.6m as of 31 December 2020, including rent received. Part of the balance will be used for dividend distribution;
- In line with the Fund’s strategy, the Fund manager continues enhancing Al Khalidiya Business Centre by constructing a parking building and additional leasing space at a cost of SAR 18 million, adding value to the property. The handover date is expected to be during H1-2021.

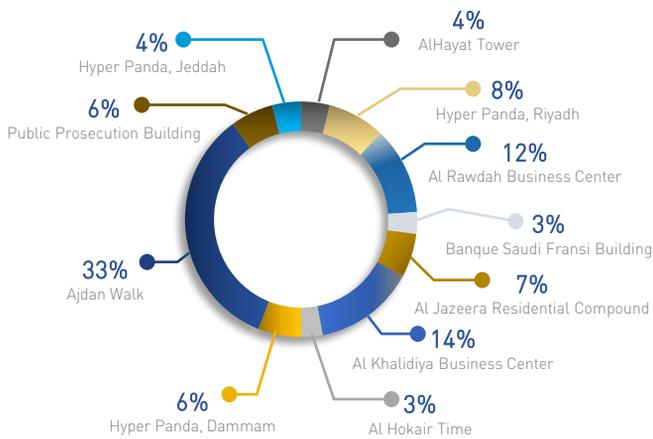
Portfolio Description

Geographical Diversity

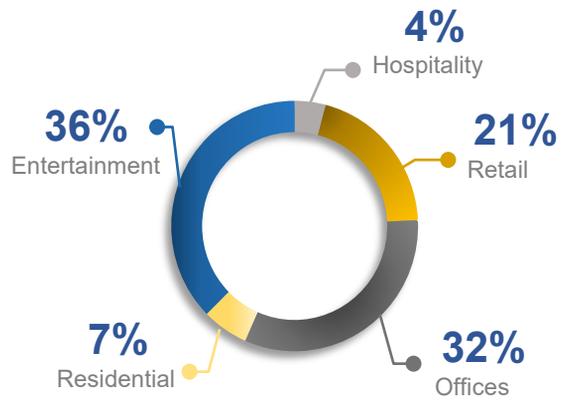
The Fund's assets are diversified across Riyadh 18%, Jeddah 37% and Eastern Province 45%.



Assets Allocation



Sectoral Diversification of the Portfolio



Properties – Riyadh

Al Hayat Tower Apartments Hotel		Description	Hotel apartments located on Ka'ab Bin Malik Street, Al Maathar District, Riyadh
	Sector	Hospitality	
	Land Area/m²	1,495	
	Building Area/m²	6,574	
	Occupancy Rate	100%	
	Annual Income	SAR 3,600,000	
	Tenant*	Dar Al Masarat Arabia Company Limited	
	Weighted Average Lease Expiry	4.0 years	

The tenant has filed a termination lawsuit, due to the construction works – adjacent to the property – pertaining to the Riyadh Metro project. While the legal case with Burj Al Hayat remains open as of December 31st, 2020. SEDCO Capital is assessing potential options. Details of the lawsuit are outlined on Tadawul.

Hyper Panda - Riyadh		Description	Hypermarket in Riyadh - Ishbilliai District Branch
	Sector	Retail	
	Land Area/m²	23,604	
	Building Area/m²	10,784	
	Occupancy Rate	100%	
	Annual Income	SAR 5,822,670	
	Tenant	Al Azizia Panda United Company	
	Weighted Average Lease Expiry	7.5 years	

Al Jazeera Residential Compound		Description	Residential compound located in the center of Riyadh on Mashaja Bin Saud Street, Sulaymaniyah District
	Sector	Residential	
	Land Area/m²	20,758	
	Building Area/m²	12,696	
	Occupancy Rate	100%	
	Annual Income	SAR 7,108,500	
	Tenant	Multiple tenants	
	Weighted Average Lease Expiry	0.5 years	

Properties – Jeddah

Public Prosecution Building



Description	The Public Prosecution Building, located on the Rahmaniya Road, Al Rayyan District, Jeddah
Sector	Office
Land Area/m ²	4,767
Building Area/m ²	19,342
Occupancy Rate	100%
Annual Income	SAR 5,500,000
Tenant	Saudi Commission for Investigation and Prosecution (Public Prosecution)
Weighted Average Lease Expiry	0.2 years

Al Khalidiya Business Center



Description	A commercial/office center located on Prince Sultan Street, Al Khalidiyah District, Jeddah
Sector	Office
Land Area/m ²	7,903
Building Area/m ²	24,876
Occupancy Rate	77%
Annual Income	SAR 9,068,618
Tenant	Multiple tenants
Weighted Average Lease Expiry	2.5 years

Hyper Panda - Jeddah



Description	Hypermarket is located on Hamdaniya Street, Al Hamdaniya District, Jeddah
Sector	Retail
Land Area/m ²	13,686
Building Area/m ²	5,858
Occupancy Rate	100%
Annual Income	SAR 2,845,151
Tenant	Al Azizia Panda United Company
Weighted Average Lease Expiry	7.1 years

Al Rawdah Business Center



Description	A commercial/office center located on Prince Saud Al Faisal Street, Al Rawdah District
Sector	Office
Land Area/m ²	2,463
Building Area/m ²	17,526
Occupancy Rate	75%
Annual Income	SAR 6,864,670
Tenant	Multiple tenants
Weighted Average Lease Expiry	1.6 years

Properties – Dammam

Banque Saudi Fransi Building



Description	A building leased by Banque Saudi Fransi located on Imam Ali Bin Abi Talib, Al Rayyan District, Dammam
Sector	Retail
Land Area/m²	5,191
Building Area/m²	879
Occupancy Rate	100%
Annual Income	SAR 2,000,000
Tenant	Banque Saudi Fransi
Weighted Average Lease Expiry	4.9 years

Hyper Panda - Dammam



Description	Panda Hypermarket is located on Imam Ali Bin Abi Talib, Al Rayyan District, Dammam
Sector	Retail
Land Area/m²	18,145
Building Area/m²	9,800
Occupancy Rate	100%
Annual Income	SAR 5,228,170
Tenant	Al Azizia Panda United Company
Weighted Average Lease Expiry	4.1 years

Al Hokair Time Center



Description	Al Hokair Time is located on the East Coast of Dammam
Sector	Entertainment
Land Area/m²	5,156
Building Area/m²	3,326
Occupancy Rate	100%
Annual Income	SAR 2,200,000
Tenant	Abdulmohsen Al Hokair Group for Tourism and Development Company
Weighted Average Lease Expiry	16.4 years

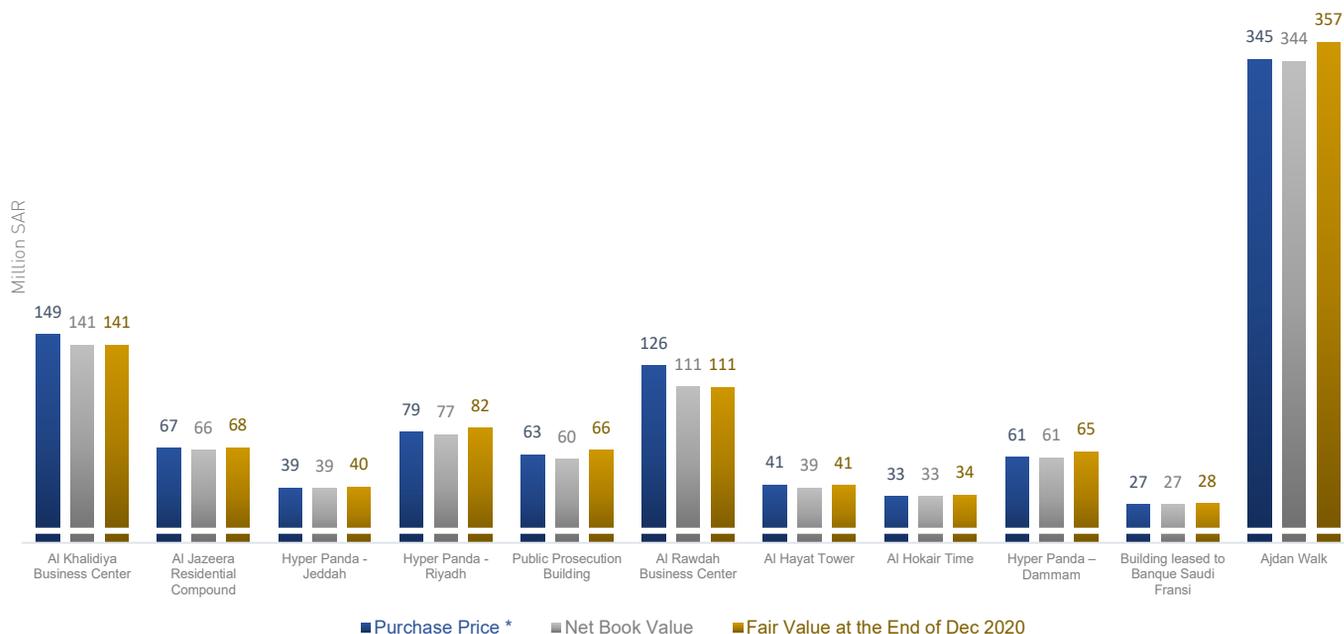
Ajdan Walk



Description	Ajdan Walk is located on Prince Turki Street in Al Khobar
Sector	Entertainment / Office
Land Area/m²	16,966
Building Area/m²	32,212
Occupancy Rate	100%
Annual Income	SAR 25,000,000
Tenant	AlOula Real Estate Development Company
Weighted Average Lease Expiry	8.1 years

Fair value vs. Purchase Price and Book Value

Based on the average valuation of two independent accredited real estate valuers; ValuStrat and White Cubes, the fair value of the Fund's assets at the end of December 2020 has increased by 0.1%, reaching SAR 1,032 million, compared to the total purchase cost, excluding transaction costs.



* Purchase price does not include acquisition costs

Summary of Leased and Non-leased Assets, Occupancy Rate, and Weighted Average Lease Expiry (WALE)

Property	Leased/Non-leased	Occupancy	WALE
Al Hayat Hotel Apartments Tower	Leased	100%	4.0 Years
Hyper Panda - Riyadh	Leased	100%	7.5 Years
Al Jazeera Residential Compound	Leased	100%	0.5 Years
Public Prosecution Building	Leased	100%	0.2 Years
Al Khalidiya Business Center	Leased	77%	2.5 Years
Hyper Panda - Jeddah	Leased	100%	7.1 Years
Al Rawdah Business Center	Leased	75%	1.6 Years
Building leased to Banque Saudi Fransi	Leased	100%	4.9 Years
Hyper Panda - Dammam	Leased	100%	4.1 Years
Al Hokair Time	Leased	100%	16.4 Years
Ajdan Walk	Leased	100%	8.1 Years

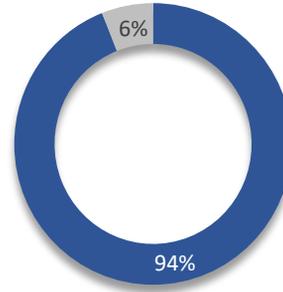
100% of the Fund's assets are leased and income generating

Portfolio Average
Occupancy Rate 94%

Portfolio Average WALE
4.2 years

Portfolio Occupancy Rate

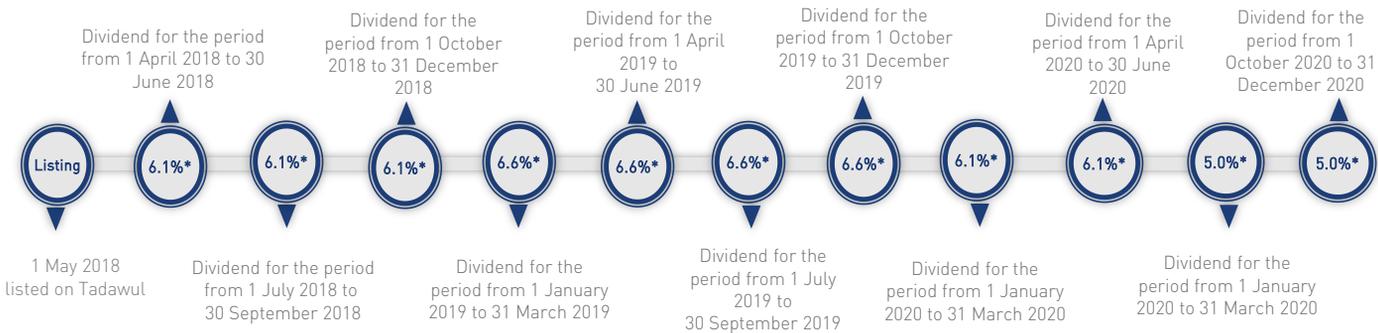
As of 31 December 2020, the occupancy rate reached 94% with an increase of 2% compare to 31 December 2019.



94%
Occupancy Rate

Dividend Distributions

The Fund Manager intends to distribute semi-annual cash dividends to investors of no less than 90% of the Fund’s net profit within 90 calendar days following the end of June and December of each calendar year, excluding capital gains arising from the sale of assets which may be reinvested in additional assets for the interests of unitholders. Since listing, the Fund has distributed the following CoC dividends:



* Annual basis

Transactions with Related Parties

The Fund Manager’s transactions with related parties are summarized as follows:

- The rental of units at Al Khalidiya Business Center.
- Maintenance and operation contracts for three of the Fund’s properties.

Rents with related parties represent 1.3% of total Fund revenues whereas maintenance contracts account for 10% of total Fund expenses. The Fund Manager confirms that all these transactions and contracts have been based on the principle of equality among all customers and without any preference. The Related parties are:

- Al Mahmal Facilities Services Company
- Tazweid Talent Co.

Material Development During the Period

- The Fund Manager announced on its website and Tadawul’s that it has received an approval from the Fund’s Board of Directors to increase the capital of the Fund. The Fund Manager will then proceed to obtain all required regulatory approvals; Capital Market Authority, Tadawul and majority of the unitholders. As the Fund aims to acquire a real estate portfolio with a value of more than SAR 900 million, consisting of 10 income-generating properties in different sectors located between Riyadh and the Eastern Region.
- The Fund Manager has received several requests from tenants to consider reducing, suspending or deferring their rental contractual obligations as a result of COVID-19 precautionary measures. The Fund Manager then evaluated the impact and actual losses on a case-by-case basis and granted discounts to eligible tenants in accordance with the approved discount policy.
- The Fund Manager successfully reduced the facility cost by 45 basis points, with a shift from annual to semi-annual SAIBOR. In addition, the Fund Manager signed a Shariah-compliant hedging contract with Al Rajhi Bank to stabilize the price of SAIBOR and take advantage of the low rates and reduce the risk of interest rate fluctuations. The SAIBOR was fixed for 49% of the financing facility at 1.69% and for the remaining 51% the SAIBOR was fixed at 1.43%. The hedging contract will expire in October 2023.
- The Fund Manager has received a ruling from the General Court in Jeddah to terminate the lease agreement of Burj Al Hayat Hotel in Riyadh. The tenant has filed the lawsuit claiming that the property has been underutilized due to the Riyadh Metro project and road closures in the area surrounding the property.

Subsequent Events

On 23 February 2021, The Fund Manager announced that the final verdict from the Appellate Court came endorsing the verdict to terminate the lease contract of Burj Al Hayat Hotel. In the meantime, the Fund Manager continues to diligently assess several operational options and Value-add opportunities to enhance the performance of the property and minimize the financial impact of the current situation.

Changes to the Fund’s Documents

- Updated the investment objectives listed under the fund summary to include the updated dividend policy.
- The profit distribution policy and timing have been modified under the fund summary.
- The objectives of the fund have been amended to include the updated dividend policy.
- The dividend and other distributions clause has been amended.
- Amended “reporting the net asset value” clause.
- The Board of Directors clause has been updated to reflect the recent change, replacing the resigning director Nawaf Jamjoom with Abdulwahhab Abed, a non-independent director.
- Updated the financial statements clause.
- The Board of Directors clause has been updated to reflect the recent changes; replacing the resigning director Dr. Abdulraouf Banaja with Tariq Linjawi - an independent director – as well as appointing Ziad Alakeel. - an independent director.
- Updated the list of directorships.

Summary of Fund’s Performance

Based on the financial results and achievements during the year 2020 and considering the impact of the pandemic on the real estate market, the dividend yield stood at 5.55% on an annual basis. The Fund Manager strives to continue distributing dividends on a regular basis and to re-lift the returns to the targeted level of 6.1% annually.

Stock

The stock witnessed different levels of volatility during the period, recording its highest price at 10.5 SAR, and lowest at 8.0 SAR, to end the last trading session on 31 December 2020 at 9.35 SAR.



Topics Discussed and Resolutions Issued by the Fund Board

DATE	TOPICS	RESOLUTIONS
10 February 2020	<ul style="list-style-type: none"> Appointment of Representatives of the Issuer 	<ul style="list-style-type: none"> Approved appointing Mr. Nawaf Jamjoom and Mr. Sultan Sukkar as representatives before the Exchange for all purposes relating to the Listing Rules.
26 February 2020 (6 th Fund Board meeting)	<ul style="list-style-type: none"> Fund's Capital Increase Plan 	<ul style="list-style-type: none"> Approved the Fund Capital increase plan. Approved appointing a legal advisor to handle all legal matters associated with this transaction. Approved (if needed), to explore engaging service providers such as underwriter, financial advisor, Zakat and Tax advisor, and accredited real estate valuers.
19 March 2020	<ul style="list-style-type: none"> Audited Financial Statements 	<ul style="list-style-type: none"> Approved the draft of the Fund's audited financial statements for the period from 1 January 2019 to 31 December 2019.
24 March 2020	<ul style="list-style-type: none"> Fund Board Report 	<ul style="list-style-type: none"> Approved the Fund's Annual Board report, which was published as part of the Fund's annual report.
31 March 2020	<ul style="list-style-type: none"> Increasing the Bank Facilities Limit 	<ul style="list-style-type: none"> Approved the increase of the bank facility limit. Approved the related administrative fees. Approved hiring a legal advisor to review the transaction.
06 April 2020	<ul style="list-style-type: none"> Dividend Distribution 	<ul style="list-style-type: none"> The Fund's Board of Directors approved a dividend distribution for Q1 2020.
13 April 2020	<ul style="list-style-type: none"> Discounts requests from tenants affected by the consequences of the Corona virus 	<ul style="list-style-type: none"> Approved the maximum limits for discounts that the Fund Manager may grant to certain tenants affected by the precautionary measures of Corona Virus pandemic.
12 May 2020	<ul style="list-style-type: none"> Terms and conditions update 	<ul style="list-style-type: none"> Approved the updated version of the fund's terms and conditions
12 May 2020 (7 th Fund Board Meeting)	<ul style="list-style-type: none"> Hedge agreement 	<ul style="list-style-type: none"> Approved signing a Shariah-compliant hedging agreement for part of the existing bank facility.
31 May 2020	<ul style="list-style-type: none"> Appointment of Representatives of the Issuer 	<ul style="list-style-type: none"> Approved appointing Mr. Abdulwahhab Abed and Mr. Sultan Sukkar as representatives before the Exchange for all purposes relating to the Listing Rules.
17 June 2020	<ul style="list-style-type: none"> Hedge agreement 	<ul style="list-style-type: none"> Approved signing a Shariah-compliant hedging agreement for the remaining part of the existing bank facility.
1 July 2020	<ul style="list-style-type: none"> Dividend Distribution 	<ul style="list-style-type: none"> The Fund's Board of Directors approved a dividend distribution for Q2 2020.
02 July 2020	<ul style="list-style-type: none"> Appointing a Legal advisor 	<ul style="list-style-type: none"> Approved appointing a legal advisor to handle tenant problems and defaults.
15 July 2020	<ul style="list-style-type: none"> COVID-19 Discount Policy 	<ul style="list-style-type: none"> Approved the proposed COVID-19 discount policy.
05 August 2020	<ul style="list-style-type: none"> Interim Financial Statements 	<ul style="list-style-type: none"> Approved the draft of the Fund's interim financial statements for the period from 1 January 2020 to 30 June 2020.
11 October 2020	<ul style="list-style-type: none"> Dividend Distribution 	<ul style="list-style-type: none"> The Fund's Board of Directors approved a dividend distribution for Q3 2020.
14 October 2020	<ul style="list-style-type: none"> Terms and conditions update 	<ul style="list-style-type: none"> Approved the updated version of the fund's terms and conditions.
06 December 2020	<ul style="list-style-type: none"> Budget Increase - KBC 	<ul style="list-style-type: none"> Approved a budget increase for Al Khalidiya Business Center enhancement project.
23 December 2020	<ul style="list-style-type: none"> Dividend Distribution 	<ul style="list-style-type: none"> The Fund's Board of Directors approved a dividend distribution for Q4 2020.
29 December 2020	<ul style="list-style-type: none"> Appointing a Legal advisor 	<ul style="list-style-type: none"> Approved appointing a legal advisor to handle Burj Al Hayat legal case.

Financial Performance

Fund Size	As of 31 Dec 2018	As of 31 Dec 2019	As of 31 Dec 2020
Net market value of the Fund's assets at the end of the financial year (Fair Value)	602,081,783	589,037,823	565,014,116
Net market value of the Fund's assets per unit at the end of the financial year (Fair Value)	10.0347	9.8173	9.4169
Net market value of the Fund's assets at the end of the financial year (Book Value)	578,983,917	561,523,849	537,948,379
Net market value of the Fund's assets per unit at the end of the financial year (Book Value)	9.6497	9.3587	8.9658
Highest net asset value per unit for each financial year (Fair Value)	10.0347	9.9039	9.6297
Lowest net asset value per unit for each financial year (Fair Value)	9.8281	9.8173	9.4169
Income distribution per unit	0.46	1.30	1.14
Percentage of expenses borne by the Fund	3.54%	10.01%	9.72%
Net income	6,433,917	22,139,932	9,721,346
Distribution yield (based on market traded price)	6.10%	6.63%	5.94%
Number of units in issue	60,000,000	60,000,000	60,000,000

Services, Fees and Commissions Charged to the Fund Throughout the Year

Indicator	As of 31 Dec 2019	As of 31 Dec 2020
Operating expenses	7,640,683	7,509,250
Management fees	5,981,591	5,845,879
Finance fees	26,963,654	18,495,689
Professional fees	452,873	1,199,362
Other costs	1,828,087	3,615,774
Depreciation and amortization	16,122,408	18,264,914
Total expenses	58,989,296	54,930,868

Performance Record

Period	Total Return
Since Inception	6.08% (on an annual basis)
One Year	5.55% (on an annual basis)
Three Years	N/A
Five Years	N/A

	2018	2019	2020
Total Return	6.10% (on an annual basis)	6.60% (on an annual basis)	5.55% (on an annual basis)

Special Commissions Received by the Fund Manager

The Fund Manager has not received any special commission during the period.

Fund Manager's Investments

The Fund Manager holds 2,318,434 units, representing 3.86%.

Leverage

Financing amount equals SAR 490 million, representing 50%.

Risk Assessment

The Fund’s activities expose it to a variety of different risk factors that are exogenous such as market risk, credit risk and liquidity risk as well as operational process related risks. Furthermore, there are risks related to the asset class REITs as such. 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.

Consequently, the risk assessment process focuses on the most significant risk factors, which include but are not limited to:

Main Risks	Description	Assessment
Market Risk	Market Risk arises from external factors such as macroeconomic conditions, competition, supply & demand, political changes, FX etc.	The Fund Manager monitors on a regular basis the fluctuation and changes in the overall economic environment, local real estate markets including cap rate, inflation rate, taxes, valuations, competition from other available premises and various other factors. Given these factors, the Manager believes that the impact of current market factors is mitigated through diversification of assets that adds stability to the portfolio while reducing vulnerability to economic fluctuations. Additionally, vacancy risks are managed through a proactive asset management approach. Market research is conducted to avoid any economic constraints as much as possible.
Risks related to the use of debt	The use of debt results in risks such as interest rate, leverage related to refinancing risks. Interest rate risk is the potential for financial loss arising from increases in interest rates and ultimately adversely impacting the financing terms of the Fund.	The Fund Manager uses debt with the objective to enhance investor returns. Based on the expected trend of interest rates, the Manager may consider other financial instruments to manage this risk. Leveraging may also further exacerbate any losses.
Credit Risk	Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments.	Credit risk is mitigated by geographical diversification, diversity both in its tenant mix and asset mix and by conducting tenant credit assessments. For new leases, credit evaluation is performed and on an ongoing basis, tenant credit and arrears are closely monitored by the Manager.
Completion Risk	Risk associated with development projects underway include: construction delays and their impact on financial performance, cost overruns which could impact the profitability and/or financial viability of a project; and, the inability to meet revenue projections upon completion. Delays may result in legal risk.	This risk is somewhat mitigated based on the fact that Fund is entitled to invest only up to 25% of the value of its assets in real estate development. The Manager also aims to mitigate this risk through management of the contractual framework of the properties.
Operational Risk	Risk of loss resulting from failure of internal processes, operational procedures, external events, loss of key personnel, service provider and counterparty risk as well as business continuity risk.	The Fund Manager has in place a monitoring framework to manage the day-to-day activities and mitigate operational risks. These include periodic meetings to identify potential operational risks, reviewing and resolving operational issues. The Manager has established processes to identify, monitor and manage operational risks associated with day-to-day management and maintenance of the Fund’s properties. Internal audits are also carried out periodically to review compliance with processes, and to identify and rectify any lapses in procedures. A business continuity plan is in place to mitigate the business continuity risk of interruptions or catastrophic loss to its operations. Additionally, for the perspective of key personnel risk, the Manager had no material changes in the organizational structure during the year. Service providers and counterparty performance is regularly monitored.

Risk Assessment – Cont.

Main Risks	Description	Assessment
Liquidity Risk	Liquidity Risk has many dimensions such as the risk of being unable to meet any payment obligations for exiting properties according to plan.	Cash flow generated from operating the property portfolio represents the primary source of liquidity used to service the interest on debt, fund general and administrative expenses. Therefore, the Manager ensures that there are adequate funds to repay obligation in a timely and cost-effective manner. Additionally, The Fund Manager also has a cash management process in which he has the option to utilize any excess cash in short-term deposits. Any decline in liquidity in the Saudi real estate market may affect valuations. Any exit below acquisition cost (including transaction cost) can lower the returns.
Regulatory Risk	Fund operates within guidelines as set out in the “Real Estate Investment Traded Funds Instructions” from Capital Market Authority. There can be further regulatory risk related to real estate market or public policy.	The Fund Manager has implemented processes to monitor regulatory requirements in all fund management functions, such as Compliance and Risk Management aim to provide another layer of assurance that proper controls are in place to avoid any non-compliance.
Legal Risk	Risks involved in legal arrangements, contracts, agreements and obligations.	The Fund Manager has a dedicated Legal and Compliance departments, who are responsible to provide guidance to ensure that all regulatory and compliance matters are adhered to. Regarding legal suits, any adverse ruling may potentially have a negative financial impact on the Fund.
Risk of Crimes such as Cyber Security Risks	Crimes such as cyber security incident includes any material adverse event that threatens the confidentiality, integrity and/or availability of SC’s information resources and may result in financial losses.	The Fund Manager has implemented processes, procedures and controls to help mitigate these risks. However, these measures, as well as its increased awareness of a risk of a cyber-incident, do not guarantee that its financial results would not be negatively impacted by the occurrence of any such event.
Valuation Risk	Risk that the quality of valuation does not meet regulatory standards.	Two independent appraisals are performed for asset valuations. The 3 rd party valuers are accredited by TAQEEEM i.e. Saudi Authority for Accredited Valuers. The Fund Manager uses the average of the two independent valuers for reporting purpose. In case of any material contradiction between the two valuers, the Fund Manager assigns a third valuer.
Capital Deployment Risk and Reinvestment Risks	Risk of delay in capital deployment.	This risk is mitigated based on the fact that Fund is fully invested.
General Risks Related to the Asset Class REIT	General risks of the asset class include among other aspects volatility of the share price, potential deviations between net asset value and the share price in the market, potential drop in share price and liquidity risks.	The market price of the units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of the Manager.

Risk Assessment – Cont.

Main Risks	Description	Assessment
Environmental, Social and Governance (ESG) Risks, in Particular Climate Risk	<p>Environmental, Social, and Governance (ESG) risks refer to the three factors in measuring the sustainability and societal impact of an investment.</p> <p>ESG criteria can help to better determine the future financial performance of companies (return and risk).</p> <p>Any environmental issues of properties, such as the use of hazardous materials, could adversely impact its value.</p> <p>As part of ESG risks, climate risks may result in increased exposure to loss as assets become less liquid, generate lower income or may be subject to environmental regulation. Additionally, Climate change could make insurance too expensive.</p>	<p>The Fund Manager assesses ESG risks in the analysis of investment opportunities and in its monitoring according to its responsible investment policy. In the Manager’s experience, ESG assessment can complement traditional financial analysis and due diligence.</p> <p>The Fund Manager has implemented processes, procedures and controls to help mitigate these risks. However, these measures, as well as its increased awareness of ESG risks, do not guarantee that its financial results will not be negatively impacted by the occurrence of any such event.</p>
Risks Related to Geopolitical Events, Natural Catastrophes, Terrorism and Health Pandemics	<p>Geopolitical events, instability, terrorism, natural catastrophes and events such as health pandemic may negatively impact assets from valuation as well as income perspective.</p>	<p>Given the fact that these events are highly uncertain and unpredictable, therefore the Fund as well as the Manager may be negatively impacted by the occurrence of any such event.</p>
Pandemic Restrictions	<p>Restrictions related to quarantines including flight bans, social distancing, lockdowns and other regulations. Resulting risks may include cap rate volatility, changes in occupancy rates or fluctuations in rental income. An adverse development may lead to a reduction in revenue or an increase in costs.</p>	<p>During 2020, COVID-19 outbreak severely impacted global and regional economies and certain sectors such as retail, wholesale, transportation, distribution, and construction got seriously affected. Social distancing and lockdown restrictions resulted in a lack of utilization of space across all kind of commercial properties such as office, retail and hospitality.</p> <p>Due to a slowdown in business, rent relief requests from tenants to be managed to avoid any significant impact on rental incomes.</p> <p>Construction work may get delayed due to lockdown restrictions.</p> <p>Asset types, regions and sectors may vary in their sensitivity to pandemic restrictions. The effects of Covid-19 are set to have an impact on the market as a whole and in result, nimble management remains important. While many restrictions have been lifted, the duration and severity of remaining restrictions is uncertain.</p>
Lease Receivables	<p>Risk of tenants’ failing to make lease payments in a timely manner. Reason of delay may include various reasons including requests for modifications in lease terms.</p>	<p>Due to economic downturn of 2020, some delays in receiving the lease payments have been experienced. The Fund Manager’s proactive management improved cash collection. In general, The Fund Manager’s thorough screening facilitates tenants’ quality and ability to pay.</p>
Property Management Risk	<p>Risk of lower income [i.e., return on investment] due to inappropriate or insufficient property management, resulting in high vacancy rates, high operating expenses and below market rental income etc.</p>	<p>The Fund Manager recognizes that management is essential to success in real estate investment and therefore, mitigates this risk by engaging suitable, qualified, and experienced property managers when outsourcing is done. In this regard, roles & responsibilities are clearly defined and agreed through legal documentation i.e., agreements, contracts etc.</p> <p>The Fund Manager has implemented necessary processes to mitigate insufficiencies related to property management.</p>

Socioeconomic and Demographic Overview

KSA

Country Profile

KSA's free market economy has undergone remarkable changes in a relatively short period of time, evolving into a regional and global economic power with robust infrastructure. KSA's economy has traditionally been consumption based, heavily reliant on oil, with limited manufacturing output - and is now looking to diversify its economic base, increase output per capita and transition into a knowledge-based economy. While the market has been impacted by government measures put in place to stop the spread of the global pandemic, strong growth is expected in the coming years, on the back of Vision 2030 programs. The real estate and tourism sectors are key to this growth strategy.

GDP

KSA enjoys one of the highest levels of GDP per capita in the MENA region. Development of non-oil sector, mining and quarrying industry, and inflow of large ticket foreign investments are further expected to increase the GDP per capita. Nominal GDP has increased notably to SAR 2,554 Bn in 2020, from SAR 2,454 Bn in 2015, growing at a CAGR of 0.8%. The real GDP has grown at a slower pace between 2015 to 2020, a contraction of -4.1% was observed in 2020 as compared to previous year. Going forward, GDP is expected to grow at a CAGR of 5.6% between 2020 and 2025 and reach SAR 3,357 Bn, on the back of significant government efforts to grow the non-oil economy.

Inflation

The average annual inflation rate of consumer prices in Saudi Arabia stood at 3.4% in 2020, largely driven by the effects of an increase in the Value Added Tax (VAT) from 5% to 15% in July. Food and Beverage (+9.0%) and Transport (+3.8%) experienced the highest levels of inflation over the last 12 months.

Private Consumption

Saudi Arabia Private Consumption accounted for 44.3 % of its Nominal GDP in Sep 2020, compared with a ratio of 43.2% QoQ. Private Consumption share of Nominal GDP has grown in the recent years, with the ratio standing at 32.1% from Mar 2003 to Sep 2020.

Private Consumption % of GDP



Public Consumption

Saudi Arabia Public Consumption accounted for 26.9 % of its Nominal GDP in Sep 2020, compared to 30.0 % share in the previous quarter. Saudi Arabia Public Consumption share of Nominal GDP ratio has an average number of 22.2 % from Mar 2003 to Sep 2020.

Public Consumption % of GDP



Consumer Price Index

The CPI increased by 5.3% in December 2020 YoY. The increase of the Value Added Tax had an overall influence on consumer prices throughout the Kingdom. The rise of the CPI originated mainly from the increase in prices of Food and Beverages (+12.7%) and Transport (+6.9%).

Saudi Arabia Vision 2030

"Saudi Vision 2030" is the long-term economic blueprint of Saudi Arabia, recognizing that a diverse market-based economy, high output/production, and investment in human capital are essential to growth. Vision 2030 is set to create growth opportunities throughout multiple key sectors of the economy with help of various programs. The Public Investment Fund program (PIF) launched a Vision Realization Program (VRP) 2021-2025. PIF will invest a minimum of USD40 billion annually, contribute USD320 billion to non-oil GDP, grow assets under management to over USD1.07 trillion, and create 1.8 million direct and indirect jobs by the end of 2025. PIF will focus on the following sectors as part of its core domestic strategy:

 Healthcare	 Logistics	 Industrial parts	 Agriculture	 Tourism
 Chemicals	 Oil & Gas	 Mining	 Automotive	 Renewable Energy
 Engineering Services	 Education	 Financial Services	 Special Projects	 Real Estate

Real Estate Sector Overview

Riyadh, Jeddah and Dammam



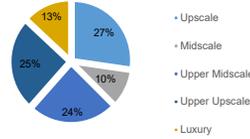
Real Estate Market Overview – Riyadh

Hospitality Sector

Average daily rates and occupancy rate declined by 8.9% and 11.1% respectively in the year of 2020 in YoY basis. Revenue per available room (RevPAR) levels declined by 25.8% over Q4 2020.

In mid-September 2020, as travel restrictions began to ease, Riyadh recorded marginal improvements to both ADRs and occupancy rates. As of December 2020, the total quality hotel supply stood at 17,427 rooms. When accounting for properties currently under construction, hotel supply is expected to increase by 24% by the end of 2023.

Market Segmentation



Supply Assessment



17,427 Keys
Existing supply



+24% Increase
in supply by
2023

KPI YoY % change YTD Dec 20



ADR
-8.9%

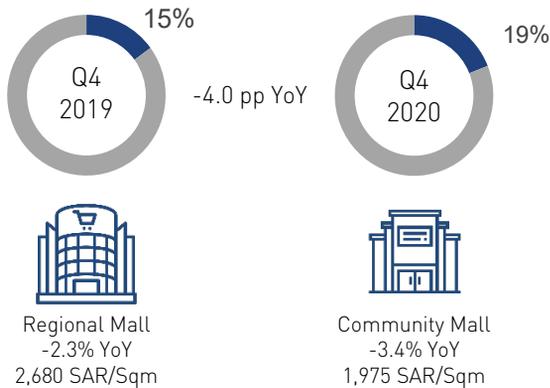


Occupancy
-11.1 PP



RevPAR
-25.8%

Retail Sector Performance – Occupancy and Lease Rates



Retail Sector

Retail sector witnessed a severe impact from the lockdown imposed as a response to the outspread of COVID-19. The majority of landlords have provided incentives such as rent-free periods and rental discounts in order to retain existing tenants and maintain healthy occupancy levels.

As of 2020, Riyadh's retail market performance across all segments softened. Rents in regional malls and community malls decreased by 2.3% and 3.4% with average rental rate of SAR 2,680 per sqm and SAR 1,975 per sqm respectively. The vacancy rate increased by 4% over the last year, reaching 19%.

The current supply stood at 2.86 million sqm of GLA. By 2023, the total supply is expected to reach 3.63 million sqm of GLA.

Residential Sector

In 2020, residential apartment sales prices increased by 1.6% with an average of SAR 3,317 per sqm, whilst residential villa prices decreased by 2.0% to SAR 3,700 per sqm. With respect to residential transactions, the total volume increased by 11%, whilst the total value declined by 6%. This increase in transaction volume is due to the increased availability of mortgages, as the government has set ambitious home ownership targets.

The decision of exempting residential transaction from 15% VAT and replace it with 5% transaction tax has contributed toward boosting the residential market.

By the end of 2023, Riyadh's housing stock is expected to increase to 1.37 million units.

Residential Sector Performance



Villa
-2.0% YoY
3,700 SAR/Sqm



Apartment
1.6% YoY
3,317 SAR/Sqm

Volume and Value



Volume
11%



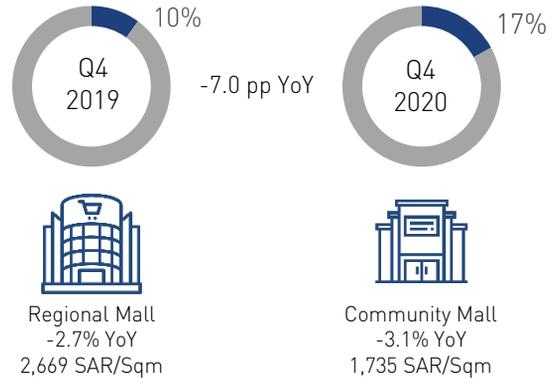
Value
-6%

JED Real Estate Market Overview – Jeddah

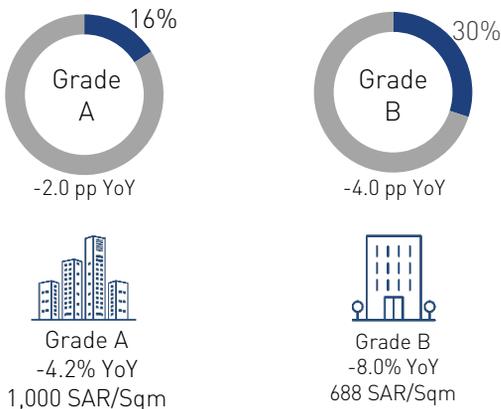
Retail Sector

To compete with the growing e-commerce market in the Kingdom, real estate developers are focusing on developing lifestyle concepts to encourage extended stays in shopping centers and higher spending, particularly amongst the country’s younger population demographics. As of 2020, the average regional malls and community malls rents decreased by 2.7% and 3.1% to reach SAR 2,669 and 1,735 per sqm, respectively. Vacancy rates increased by 7% to reach 17%, mainly driven by small and medium sized businesses who have not been able to withstand the current market conditions. There has also been an uptick of new local brands entering the Jeddah market. Jeddah’s retail stock stood at 1.95 million sqm GLA. This is expected to reach 2.69 million sqm GLA by 2023.

Retail Sector Performance – Occupancy and Lease Rates



Office Sector Performance – Occupancy and Lease Rates



Office Sector

The office sector’s performance materially softened in 2020. The vacancy rate increased for both Grade A and Grade B, reaching 16% and 30% respectively.

Rental rates for grade A decreased by 4.2%, reaching an average of SAR 1,000 per sqm, while Grade B office rental rates decreased by 8.0%, reaching an average of SAR 688 per sqm.

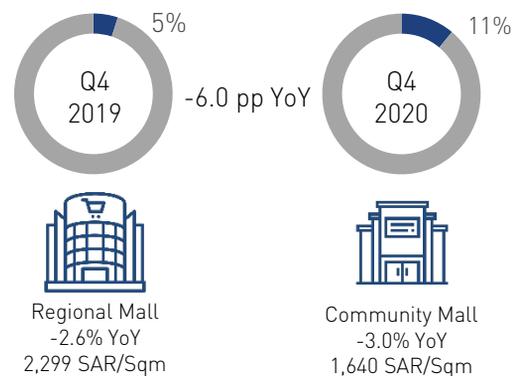
The total office supply reached 1.26 million sqm GLA due to the completion of two office developments, which added around 27,000 sqm of GLA to the market. Supply is expected to reach 1.75 million sqm GLA by end of 2023.

DAM Real Estate Market Overview – Dammam

Retail Sector

In the last 12 months all segments of the retail market in Dammam have softened. For regional malls, rental rates decreased by 2.6%, reaching an average rental rate of SAR 2,299 per sqm. For community malls, average rental rates dropped by 3.0% to average rental rate of SAR 1,640 per sqm. The retail market vacancy rate increased by 6 percentage points to reach 11%. This increase in the vacancy rate was primarily from malls where tenants were not given any rent rebates to mitigate the impact of the pandemic on performance. The retail stock stood at 1.14 million sqm GLA. By 2023, this total is expected to reach 1.54 million sqm GLA.

Retail Sector Performance – Occupancy and Lease Rates





Entertainment Sector

KSA's leadership set out 'Vision 2030' to transform the nation's economy and diversify the economic base away from oil dependency. Entertainment options form a key pillar of diversification that has been identified as part of this vision. Since the announcement of Saudi Vision 2030 in 2016, the entertainment sector has been experiencing strong growth across the Kingdom. The growth of the entertainment sector has resulted in significant shifts in the real estate landscape and the built environment. Beyond the traditional amusement and water parks, other types of entertainment spaces have emerged as a response to increased demand for innovative experiences. New offering across the Kingdom ranges from sports complexes and recreational parks to new F&B concepts and botanical gardens. Saudi Arabia seeks to leverage the unique profile and natural characteristics of each province to develop an offering, which complements the country's wider entertainment landscape, while developing a distinctive brand, theme and capabilities within the various destinations. Nevertheless, there are several key entertainment spaces which transcend geographical differences, and which have witnessed increased demand across the wider Kingdom - cinemas, Family Entertainment Centers (FEC) and edutainment - with Dammam being amongst the front-runners on the list.

SEDSCO Capital Perspective

The Way Ahead

SEDCO Capital Perspective For Real Estate Segment*

The real estate industry plays a substantial role in nation development. Despite the struggles that the real estate market, particularly the retail, commercial, and hospitality sectors, had gone through in the past year due to the cessation in economic activity as a result of implementing COVID-19 precautionary measures, the real estate market maintains an overall positive outlook thanks to the government initiatives in supporting the private sector by injecting \$13.3 billion into the banking sector to enhance banking liquidity and enable banks to continue providing credit facilities. As of October 2020, the 3M SAIBOR stood at 0.85%, down 138bps YTD. SEDCO Capital anticipates that no increase will occur in **interest rate** during the medium term which in turn will enhance the lending ability of banking system and to continue providing credit facilities for individuals and private sector.

Saudi Arabia's priority remains focused on balancing growth, stability and ensuring a good quality of life for citizens and residents. This is evident in the SAR 990 billion (USD 264 billion) budget for 2021, emphasizing health and social development, and education spending.

The kingdom has made attracting greater **foreign investment** as a key pillar of its Vision 2030 plan. The Ministry of Investment issued 306 new foreign licenses after the kingdom eased Covid-19 restrictions and stepped-up economic activity. These new licenses account for 96% increase from the Q2 2020 and a 21% rise from the same period last year. This initiative is expected to positively contribute to the kingdom's economic diversification and reduce its dependency on the oil industry.

The country's efforts to establish itself as a global business center and major tourist destination bode well for the **hotel segment** as the country is hosting major international sporting events. While the tourism sector remains challenged as a result of COVID-19, the country is looking to continue its support and invest in hospitality projects in efforts to increase domestic and international tourism and achieve its Vision 2030 goals. To promote tourism and gain more attraction, major projects were identified to preserve the historical and heritage sites in KSA. Archaeological sites include among others 15 palaces in Al-Fouta district (the historical districts of central Riyadh), Al Hijaz railway, Al Ula (the first UNESCO World Heritage Site in the Saudi Kingdom), Jeddah Historical city and Al Ahsa Oasis. It is anticipated that these initiatives will lay the foundation for long-term growth and fuel an ambitious construction pipeline.

Discretionary spending on dining out and entertainment are likely to face pressure in the short-term, the **entertainment market** is currently in a nascent stage. Market is expected to recover in the medium-to-long term.

Going forward, **commercial activity** might not reach the level of pre COVID-19, but a gradual recovery is expected supported by the introduction of the vaccination program. Non-conventional retail and entertainment concepts are expected to boost the sector. Meanwhile, the smaller neighborhood & convenience centers are to benefit from the growth in the grocery segment, as investors eye the sector given its resilience; as retail become increasingly digital and internet driven.

Saudi unemployment rate decreased to 14.9% in Q3 2020 compared to 15.4% in Q2 2020. The improvement is mainly attributed to softening COVID-19 related restriction, businesses resuming work from office and introducing a set of approved vaccines. Therefore, a recovery in demand is anticipated across the **office sector** during 2021.

During 2020, the Ministry of Housing has completed 82 projects with more than 138,000 housing units delivered in the kingdom, at prices ranging between \$66,670 (SAR250,000) and \$200,000 (SAR750,000) within an integrated residential environment. More than 58 housing projects at various stages of construction are being developed across different regions in the kingdom. Transactional activity in the residential market will remain resilient mainly attributed to the decision of exempting residential transaction from 15% VAT and replace it with 5% transaction tax in addition to the MOH announcement to absorb the increased VAT for first-time buyers of unit's worth SAR 850K or less.

In regard of **TASI REITs Index**, operating expenses remained high, thus significantly dragging the profits. Most of the funds offered discounts or revised rents to clients hit by the lockdowns. The rental income distributed by REITs as of September 2020 dwindled to 5.8% compared to 6.2% in FY 19. However, in comparison with global REITs market indices, KSA REITs provide better dividend yield to investors; as the MSCI World REIT and the S&P Global REIT stood at 3.47% and 4.46%, respectively, while REITs in the US (MSCI US REIT) and Europe (FTSE EPRA Nareit Developed Europe Index) had dividend yield of 3.79% and 4.13%, respectively. We remain confident that the TASI REITs sector considered as a sustainable investment channel for investors seeking regular steady income.

*Sources: Saudi Arabia Budget 2020 | Ministry of Finance; GASTAT; www.CEIC.com; www.zawya.com; Tourism-culture-entertainment | Invest Saudi; SAMA; Vision 2030 - About | Invest Saudi; www.oxfordbusinessgroup.com; Saudi Arabia Real Estate Market Review | Knight Frank; The KSA Real Estate Market A Year in Review 2019 | JLL; www.kpmg.com; Consumer Price Index 2020 | GASTAT; Analysis of Household Savings in Saudi Arabia 2002 | KPMG; Real Estate Detailed Value Proposition | Invest Saudi; KSA REITs Landscape November 2020 | AlJazira Capital; Market in minutes KSA research April 2020 | Savills.

Fund Manager

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Saudi Economic and Development Securities Company (SEDSCO Capital) is a Saudi closed joint stock company registered under Commercial Registration No. 4030194994 and licensed as a "Capital Market Institution" under CMA License No. 11157-37 dated 19/04/2009 to deal, provide custody services, manage investments and operating funds/manage investments, arrange and advise.

Custodian

ALINMA INVESTMENT COMPANY
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P.O Box: 66333.Riyadh 11576
Kingdom of Saudi Arabia



The Fund has appointed the Custodian to act as the custodian of the assets of the Fund. The assets will be registered in the name of a SPV established by the Custodian to separate the assets owned by the Fund and those owned by the Custodian.

Responsibilities of Custodian:

- Take into its custody assets managed by the Fund Manager
- Open a separate account with a local bank in the name of the Fund and deposit all cash in the account
- Separate the assets of each investment fund from its assets and the assets of its other clients and register the real estate assets in the name of a subsidiary of the Custodian.

Auditor

KPMG Professional Services
Zahran Business Center
Prince Sultan Street
P.O Box 55078 Jeddah 21534
Kingdom of Saudi Arabia



Statement of Auditor's Opinion: "We have audited the financial statements of SEDSCO Capital REIT FUND (the "Fund"), managed by SEDSCO Capital Company (the "Fund Manager"), which comprise the statement of financial position as at December 31, 2020, the statements of comprehensive income, changes in equity attributable to unitholders and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2020, 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 Certified Public Accountants (SOCPA)."

Financial Statements

for the year ended 31 December 2020

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

FINANCIAL STATEMENTS
For the year ended December 31, 2020
with
INDEPENDENT AUDITOR'S
REPORT TO THE UNITHOLDERS

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

FINANCIAL STATEMENTS
For the year ended December 31, 2020

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Independent Auditor's Report

To the unitholders of SEDCO Capital REIT Fund

Opinion

We have audited the financial statements of **SEDCO Capital REIT FUND (the "Fund")**, managed by Saudi Economic and Development Securities Company ("SEDCO Capital Company" or "the "Fund Manager"), which comprise the statement of financial position as at December 31, 2020, the statements of comprehensive income, changes in net assets attributable to unitholders and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2020, 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 Certified Public 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 professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Independent Auditor's Report

To the unitholders of SEDCO Capital REIT Fund (continued)

Key Audit Matters

The Key audit matter	How the matter was addressed in our audit
<p>Valuation of investment properties</p> <p>As at December 31, 2020, the carrying value of investment properties aggregated SR 1,005.4 million (December 31, 2019: SAR 1,019.9 million) and the fair value of these properties amounted to SAR 1,032.4 million (December 31, 2019: SAR 1,047.4).</p> <p>The investment properties are stated at cost less accumulated depreciation and impairment losses, (if any). However, the fair value of the investment properties is disclosed in the note 10 to the financial statements.</p> <p>In accordance with the requirements of relevant accounting standards, the Fund is required to assess indicators of impairment on its investment properties at each reporting date. In case such indicators are identified, the recoverable of such investment properties are required to be determined.</p> <p>As part of its assessment of impairment indicators, the Fund reviews both internal and external indicators of impairment including but not limited to net cash flows, operating losses, physical condition of its properties and adverse market changes or conditions. The Fund also uses the valuation reports from the independent valuers engaged by the Fund Manager to evaluate the recoverable amounts of properties at the reporting date.</p> <p>We considered this as a key audit matter since the assessment of recoverable amounts, where required, involves the exercise of significant judgment and estimates.</p> <p><i>Refer to the summary of significant accounting policies note 10.3 relating to impairment of investment properties, note 5 which contains the significant accounting judgment, estimates and assumptions relating to impairment and note 10 relating to investment properties.</i></p>	<p>Our audit procedures in response to the assessed risk of material misstatement in assessing impairment in the investment properties comprised of:</p> <ul style="list-style-type: none">- Obtaining an understanding of the process adopted by the Fund Manager in identifying the impairment in investment properties.- Obtaining an understanding of the valuation approach adopted by the Fund manager. We held correspondence with the Fund's independent valuers through the Fund Manager to understand the assumptions and methodologies used in valuing the investment properties and the market evidence used by the independent valuers to support their assumptions. We also obtained an understanding of the involvement of the Fund manager's valuation process to assess whether appropriate oversight has occurred.- Assessing valuers' credentials, their independence, professional qualifications, competence, experience and ensured that they are certified from Saudi Authority for Accredited Valuers (TAQEEM).- Assessing the value in use of investment properties determined by the Fund Manager.- Involving our specialist to assess the key assumptions and estimates, such as discount rate, exit yield rate, annual rental income, operating expenditure and occupancy, used by the real estate valuation experts in determining the fair values of the investment properties.- Comparing the recoverable amounts of the investment properties with their carrying values to check whether recognition of any impairment loss is required.- Assessing the adequacy of the disclosures in the financial statements.



Independent Auditor's Report

To the unitholders of SEDCO Capital REIT Fund (continued)

Other Information

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

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

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

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

Responsibilities of Fund Manager and Those Charged With Governance for the Financial Statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable provisions of the Real Estate Investment Funds Regulations issued by the Capital Market Authority and the Fund's terms and conditions, and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the 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, the Fund's Board, are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 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 scepticism 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.

Independent Auditor's Report

To the unitholders of SEDCO Capital REIT Fund (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Fund Manager.
- 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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, then 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 of **SEDCO Capital REIT Fund ("the Fund")**.

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

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

KPMG Professional Services

Nasser Ahmed Al Shutairy
License No. 454

Jeddah, Shaban 10, 1442H
Corresponding to March 23, 2021



SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

STATEMENT OF FINANCIAL POSITION

As at December 31, 2020

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
<u>ASSETS</u>			
Current assets			
Cash at bank		20,585,698	34,534,020
Rent receivable	8	15,919,638	7,634,432
Prepayments and other receivables	9	6,260,042	6,264,308
Total current assets		42,765,378	48,432,760
Non-current assets			
Investment properties	10	1,005,373,263	1,019,938,026
Total assets		1,048,138,641	1,068,370,786
<u>LIABILITIES</u>			
Current liabilities			
Dividends payable	11	7,500,000	9,900,000
Due to related parties	12	6,915,085	5,053,513
Accrued expenses and other payables	13	2,745,272	2,300,598
Deferred revenue	14	3,522,464	5,033,571
Derivative instruments at fair value through profit or loss	15	1,303,370	--
Financing facility from a bank	16	1,468,518	25,326,863
Total current liabilities		23,454,709	47,614,545
Non-current liabilities			
Financing facility from a bank	16	486,735,553	459,232,392
Total liabilities		510,190,262	506,846,937
Net assets attributable to unitholders		537,948,379	561,523,849
Units in issue (number)	17	60,000,000	60,000,000
Net assets per unit (SAR)	10.4	8.9658	9.3587

S. Alwan

The accompanying notes from 1 to 24 form an integral part of these financial statements.

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2020

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
INCOME			
Rental income		68,104,900	76,802,347
Murabaha income		3,250	1,251,053
		<u>68,108,150</u>	<u>78,053,400</u>
EXPENSES			
Management, administrative and shariah fees	7&12	6,167,584	6,310,671
Depreciation	10	16,086,432	16,122,408
Impairment / (reversal) on investment properties	10	3,455,936	(3,075,828)
Expected credit losses	8	2,000,000	569,458
Unrealised loss on derivative instruments at fair value through profit or loss	15	2,178,483	--
Financing fees and charges	16	18,495,689	26,963,654
Operating and other expenses	18	10,002,680	9,023,105
Total expenses		<u>58,386,804</u>	<u>55,913,468</u>
Net profit for the year		<u>9,721,346</u>	<u>22,139,932</u>
Total comprehensive income for the year		<u>9,721,346</u>	<u>22,139,932</u>

S. Alkhalaf

The accompanying notes from 1 to 24 form an integral part of these financial statements.

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
For the year ended December 31, 2020
(Expressed in Saudi Arabian Riyals)

	For the year ended December 31,
Net assets attributable to Unitholders at the beginning of the year (Note 17)	578,983,917
Total comprehensive income for the year ended December 31, 2019	22,139,932
Dividends (Note 11)	<u>(39,600,000)</u>
Net assets attributable to unitholders as at December 31, 2019 (Note 17)	561,523,849
Total comprehensive income for the year ended December 31, 2020	9,721,346
Dividends (Note 11)	<u>(33,296,816)</u>
Net assets attributable to unitholders as at December 31, 2020 (Note 17)	<u>537,948,379</u>

S. ALAL

The accompanying notes from 1 to 24 form an integral part
of these financial statements.

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

STATEMENT OF CASH FLOWS
For the year ended December 31, 2020
(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	For the year ended December 31, 2020	For the year ended December 31, 2019
Net profit for the year		9,721,346	22,139,932
Cash flow from operating activities:			
<i>Adjustment for:</i>			
Depreciation	10	16,086,432	16,122,408
Impairment / (Reversal) in investment property	10	3,455,936	(3,075,828)
Expected credit losses	8	2,000,000	569,458
		<u>31,263,714</u>	<u>35,755,970</u>
Net changes in operating assets and liabilities:			
Rent receivable		(10,285,206)	7,015,410
Prepayments and other receivables		4,266	16,293,632
Payments made for the acquisition of investment properties		--	(73,235,661)
Payments made for work in progress		(4,977,605)	--
Due to related parties		1,861,572	(11,962,830)
Accrued expenses and other payables		444,674	(1,026,072)
Derivative instruments at fair value through profit or loss		1,303,370	--
Deferred income		(1,511,107)	2,369,558
Financing facility from a bank		3,644,816	(13,781,631)
		<u>21,748,494</u>	<u>(38,571,624)</u>
Net cash generated / (used in) operating activities			
Cash flow from financing activities:			
Dividend paid during the year	11	(35,696,816)	(38,850,000)
Net cash used in from financing activities		<u>(35,696,816)</u>	<u>(38,850,000)</u>
Net change in cash and cash equivalents:		(13,948,322)	(77,421,624)
Cash and cash equivalents at beginning of the year		34,534,020	111,955,644
Cash and cash equivalents at end of the year		<u>20,585,698</u>	<u>34,534,020</u>

S. Alhadi.

The accompanying notes from 1 to 24 form an integral part of these financial statements.

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

(Expressed in Saudi Arabian Riyals)

1 THE FUND AND ITS ACTIVITIES

SEDCO Capital REIT Fund (the "Fund") is a closed-ended Shariah compliant real estate investment fund, established and managed by Saudi Economic and Development Securities Company ("SEDCO Capital" or the "Fund Manager"), a subsidiary of Saudi Economic and Development Holding Company (the "Company"), for the benefit of the Fund's Unitholders. The Fund is ultimately supervised by the Fund Board.

SEDCO Capital, a Saudi closed joint stock company licensed by the Capital Market Authority ("CMA") under License No. 11157-37 dated 23/04/1430H, corresponding to 19/4/2009, manages the Fund. The Fund Manager conducts following securities activities:

- a) Dealing;
- b) Arranging;
- c) Managing;
- d) Advising; and
- e) Custody

The Fund's objective is to provide periodic rental income to its Unitholders by investing mainly in developed properties generating income, in addition to potential capital growth of total value of Fund's assets when assets are sold later, or target assets are developed or expanded.

The Fund invests mainly in developed income generating real estate assets. The Fund may invest part of its assets and cash surplus in Murabaha transactions and short term deposits in Saudi Riyals with banks that are licensed by the Saudi Central Bank ("SAMA") and operate in Saudi Arabia. The Fund may invest up to 25% of the Fund's total assets in public money market funds and murabaha deposits.

The terms and conditions of the Fund were approved by the CMA on Rabi Awal 16, 1439 H (corresponding to December 04, 2017). The offering period for the subscription of the units was from January 24, 2018 to February 20, 2018. Unitholders subscribed for the units of the Fund during the offering period and cash was held in a collection account of NCB Capital. The Fund commenced its activities on April 01, 2018 (the "inception date").

The Fund's term will be ninety nine (99) years following the date of listing units on Tadawul. The term of the Fund may be extended at the Fund Manager's discretion subject to CMA approval.

The Fund has been established and units are offered in accordance with the Real Estate Investment Funds Regulations issued by CMA under Resolution No. 1-193-2006, dated 19/6/1427H, (The "Real Estate Investment Funds Regulations"), and in accordance with the instructions issued by CMA in respect of traded real estate investment funds pursuant to Resolution No. 6-130-2016, dated 23/1/1438H, corresponding to 24/10/2016G, ("Real Estate Investment Funds Instructions") detailing requirements for all the Real Estate Investment Funds within the Kingdom of Saudi Arabia.

2 BASIS OF ACCOUNTING

These financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA") and to comply with the applicable provisions of the Investment Funds Regulations issued by Capital Market Authority, the Fund's terms and conditions and the Information Memorandum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

(Expressed in Saudi Arabian Riyals)

3 BASIS OF MEASUREMENT

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

4 FUNCTIONAL AND PRESENTATION CURRENCY

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

Transactions and balances

Foreign currency transactions are translated into SAR using the exchange rates prevailing at the date of transactions. Monetary assets and liabilities denominated in foreign currency are translated into SAR using the exchange rates prevailing at the statement of financial position date. Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income.

5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires the Fund Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected. The significant accounting judgments and estimates applied in the preparation of these financial statements are as follows:

Useful lives of investment properties

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

Impairment of investment properties

At each reporting date, the Fund Manager reviews the carrying amounts of investment properties to determine if there is any indication of impairment. If any such indication exists, then the investment properties’ recoverable amount is estimated using independent valuers.

The recoverable amount of an investment property is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the property. In the process of determining the value in use based on the estimated future cash flows, the management also performs sensitivity analysis, which includes assessing the effect of reasonably possible reductions in occupancy and increases in operating expenditures on the forecasted cash flows to evaluate the impact on the currently estimated headroom for the investment properties.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in statement of comprehensive income.

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

(Expressed in Saudi Arabian Riyals)

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Impairment of financial assets

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

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

6. SIGNIFICANT ACCOUNTING POLICIES

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

6.1 *Cash and cash equivalents*

For the purposes of the statement of cash flows, cash and cash equivalent consists of bank balances and other short term highly liquid investments with original maturities of three months or less, which are available to the Fund without any restrictions. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

6.2 *Financial instruments*

Rent receivable is the major financial assets. Financial liabilities mainly include accrued expenses and other payables.

Initial recognition

A financial asset or financial liability (unless it is a rent receivable / other receivable without a significant financing component) is initially measured at fair value plus, for an item not carried at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Rent receivable without a significant financing component is initially measured at transaction price.

Derecognition

Assets is derecognized, when the contractual rights to the cash flows from the financial asset expires. A financial liability (or a part of financial liability) can only be derecognized when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expired.

Subsequent measurement

Subsequent to initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in the statement of comprehensive income when an asset is newly originated. The Fund recognizes loss allowances for ECL on rent receivable and due from related parties at an amount equal to lifetime ECL.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

(Expressed in Saudi Arabian Riyals)

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

6.3 *Investment properties*

Investment properties are non-current assets held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of operations, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation and impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in statement of comprehensive income.

6.4 *Accrued expenses and other payables*

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

6.5 *Provisions*

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

6.6 *Financing*

Financing is initially recognized at fair value, net of transaction costs incurred. Financing facilities are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the facility using the effective interest method. Fees paid on the establishment of financing facilities are recognised as transaction costs of the facility to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

6.7 *Revenue recognition*

Rental income from investment properties is recognized on an accrual basis in accordance with the terms of the corresponding contract. Capital gain resulting from the sale of investment property is recognized upon the execution of the corresponding sale contract.

Income from Murabaha placements is recognized using the effective profit rate over the period of the contract.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

(Expressed in Saudi Arabian Riyals)

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

6.8 *Zakat and income tax*

Taxation/zakat is the obligation of the unitholders and therefore, no provision for such liability is made in these financial statements.

6.9 *Dividend payable*

Interim and final dividends are recorded as a liability in the period in which they are approved by the Fund Board.

6.10 *Commission income and expense*

Commission income or expense is recognised using the effective interest method. The 'effective commission rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

6.11 *Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet only when there is legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Fund.

6.12 *Net assets per unit*

The net assets per unit is calculated by dividing the Net assets attributable to Unitholders included in the statement of financial position by the numbers of units issued.

7. ADMINISTRATION AND OTHER FEES

Administration and Management Fees

The Fund Manager is entitled to receive an administration and management fee of 0.05% and 1% respectively per annum of the Fund's fair value calculated at the beginning of each period semiannually.

Performance fee

The Fund Manager is entitled to a performance fee with respect to 20% of any cash dividend distributions in excess of 7% annually and 10% of any realized capital gain from the sale of real estate assets.

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

(Expressed in Saudi Arabian Riyals)

7. ADMINISTRATION AND OTHER FEES (continued)

Financing arrangement fees

The Fund Manager is entitled to receive a fee equal to 1.25% for each external financing made available to the Fund. The fees are paid to the Fund Manager once the financing is available after deducting bank arrangement fees, valuation fees, legal fees and due diligence fees associated with obtaining the financing.

Brokerage fee and acquisition fee

The Fund Manager is entitled to receive a brokerage fee up to 2.50% and acquisition fee of 0.75% of the purchase price / sale proceeds of any real estate property. The brokerage and acquisition fee is capitalized as a part of cost of property.

Custody fee

The Custodian is entitled to receive a custody fee up to SAR 30,000 one-time fee plus 0.04% of NAV as per the latest audited financial statements, not to be less than SAR 200,000.

Shariah fees

The Fund Manager is entitled to receive annual Sharia fee amounting to SR 30,000.

Edaa fees

The depository company is entitled to receive a fee for creating the unitholder register (SAR 50,000 plus 2 SAR for each unit holder, not to exceed SAR 500,000) and for managing the unitholder register (SAR 400,000) annually.

Tadawul fee

Tadawul is entitled to receive a one-time fee for listing of the Fund equal to SR 50,000 and an annual fee of 0.03% of the Fund's unit market value for the continuing of listing for the Fund.

8. RENT RECEIVABLE

This represents rent receivable from investment properties in accordance with the terms of the corresponding tenancy agreements. Rent receivable is as follows:

	December 31, <u>2020</u>	December 31, <u>2019</u>
Rent receivable	18,953,859	8,668,653
Expected credit losses	<u>(3,034,221)</u>	<u>(1,034,221)</u>
	<u>15,919,638</u>	<u>7,634,432</u>

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

(Expressed in Saudi Arabian Riyals)

8. RENT RECEIVABLE (continued)

The movement in allowance for expected credit losses is as follows:

	<u>2020</u>	<u>2019</u>
Balance at January 1	1,034,221	464,763
Charge for the year	<u>2,000,000</u>	<u>569,458</u>
Balance at December 31	<u>3,034,221</u>	<u>1,034,221</u>

9. PREPAYMENT AND OTHER RECEIVABLES

Prepayment and other receivables at comprise of the following:

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
VAT receivable	6,133,736	6,165,678
Prepaid insurance	126,306	--
Prepaid rent	<u>--</u>	<u>98,630</u>
	<u>6,260,042</u>	<u>6,264,308</u>

SEDCO CAPITAL REIT FUND

(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

(Expressed in Saudi Arabian Riyals)

10. INVESTMENT PROPERTIES

The details of the properties as at December 31, 2020 is as follows:

	Type	Location	Opening cost	Addition during the year	Closing cost	Opening depreciation	Depreciation during the year	Closing depreciation	Opening impairment	Impairment reversal during the year	Closing impairment	Net book value	Fair Value
Khalidiyah Business Center (See 10.3)	Commercial	Jeddah	148,984,706	--	148,984,706	3,679,809	1,991,614	5,671,423	--	(2,325,283)	(2,325,283)	140,988,000	140,988,000
Al Ajazzera Compound (See 10.3)	Residential	Riyadh	67,572,046	29,963	67,602,009	921,069	529,410	1,450,479	--	--	--	66,151,530	67,860,000
Panda Jeddah	Commercial	Jeddah	39,300,000	--	39,300,000	489,206	279,000	768,206	--	--	--	38,531,794	39,825,000
Panda Riyadh	Commercial	Riyadh	78,765,000	--	78,765,000	987,090	562,950	1,550,040	--	--	--	77,214,960	81,600,000
Public prosecution building	Commercial	Jeddah	63,269,676	116,600	63,386,276	2,276,103	1,307,373	3,583,476	--	--	--	59,802,800	65,935,000
Al Rawda Business Center (See 10.3)	Commercial	Jeddah	126,495,000	8,000	126,503,000	4,751,099	2,627,347	7,378,446	(6,722,901)	(1,130,653)	(7,853,554)	111,271,000	111,271,000
Burj AlHayat	Commercial	Riyadh	41,260,000	--	41,260,000	1,381,348	787,800	2,169,148	--	--	--	39,090,852	40,900,000
Saudi Fransi Building	Commercial	Dammam	28,519,294	--	28,519,294	644,185	447,863	1,092,048	--	--	--	27,427,246	28,285,000
Panda Al rayan	Commercial	Dammam	62,545,580	--	62,545,580	1,042,910	747,863	1,790,773	--	--	--	60,754,807	65,175,000
Alhokair Time (See 10.3)	Commercial	Dammam	34,206,942	--	34,206,942	624,554	447,863	1,072,417	--	--	--	33,134,525	33,600,000
Ajdan Walk	Commercial	Al Khobar	356,274,715	--	356,274,715	6,310,774	6,357,349	12,668,123	--	--	--	343,606,592	357,000,000
Work in progress (See 10.6)			2,576,115	4,823,042	7,399,157	--	--	--	--	--	--	7,399,157	--
			<u>1,049,769,074</u>	<u>4,977,605</u>	<u>1,054,746,679</u>	<u>23,108,147</u>	<u>16,086,432</u>	<u>39,194,579</u>	<u>(6,722,901)</u>	<u>(3,455,936)</u>	<u>(10,178,837)</u>	<u>1,005,373,263</u>	<u>1,032,439,000</u>

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

(Expressed in Saudi Arabian Riyals)

10. INVESTMENT PROPERTIES (continued)

The details of the properties as at December 31, 2019 is as follows:

	Type	Location	Opening cost	Addition during the year	Closing cost	Opening depreciation	Depreciation during the year	Closing depreciation	Opening impairment	Impairment during the year	Closing impairment	Net book value	Fair value
Khalidiyah Business Center (See 10.3)	Commercial	Jeddah	148,984,706	--	148,984,706	1,581,168	2,098,641	3,679,809	--	--	--	145,304,897	151,321,000
Al Ajazzera Compound (See10.3)	Residential	Riyadh	67,465,000	107,046	67,572,046	394,757	526,312	921,069	--	--	--	66,650,977	69,860,000
Panda Jeddah	Commercial	Jeddah	39,300,000	--	39,300,000	210,206	279,000	489,206	--	--	--	38,810,794	39,800,000
Panda Riyadh Public prosecution building	Commercial	Riyadh	78,765,000	--	78,765,000	424,140	562,950	987,090	--	--	--	77,777,910	81,600,000
Al Rawda Business Center (See10.3)	Commercial	Jeddah	63,269,676	--	63,269,676	978,013	1,298,090	2,276,103	--	--	--	60,993,573	67,000,000
Burj AlHayat	Commercial	Riyadh	126,495,000	--	126,495,000	2,135,846	2,615,253	4,751,099	(9,798,729)	3,075,828	(6,722,901)	115,021,000	115,021,000
Saudi Fransi Building	Commercial	Riyadh	41,260,000	--	41,260,000	593,548	787,800	1,381,348	--	--	--	39,878,652	40,350,000
	Commercial	Dammam	28,519,294	--	28,519,294	196,323	447,862	644,185	--	--	--	27,875,109	28,100,000
Panda Al rayan Alhokair Time (See 10.3)	Commercial	Dammam	62,545,580	--	62,545,580	295,047	747,863	1,042,910	--	--	--	61,502,670	63,500,000
	Commercial	Dammam	34,206,942	--	34,206,942	176,691	447,863	624,554	--	--	--	33,582,388	33,900,000
Ajdan Walk Work in progress (See 10.6)	Commercial	Al Khobar	354,722,215	1,552,500	356,274,715	--	6,310,774	6,310,774	--	--	--	349,963,941	357,000,000
			--	2,576,115	2,576,115	--	--	--	--	--	--	2,576,115	--
			<u>1,045,533,413</u>	<u>4,235,661</u>	<u>1,049,769,074</u>	<u>6,985,739</u>	<u>16,122,408</u>	<u>23,108,147</u>	<u>(9,798,729)</u>	<u>3,075,828</u>	<u>(6,722,901)</u>	<u>1,019,938,026</u>	<u>1,047,452,000</u>

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10. INVESTMENT PROPERTIES (continued)

10.3 For the year ended December 31, 2020, the Fund recorded an impairment loss amounting to SR 3.4 million (December 31, 2019: an impairment reversal amounting to SR 3 million).

The impairment on this investment property is determined based on the valuation by two independent valuers (refer to 10.5). Key assumptions taken for valuation includes the rental income, occupancy rates, escalations, exit yield and discount rates, which were broadly in range with the assumptions taken in the valuations carried out as at December 31, 2020.

10.4 At the reporting date, had the investment properties been carried at their respective fair values, the net assets value and per unit value of the Fund would have been as follows:

	December 31, 2020	December 31, 2019
Net assets as reported	537,948,379	561,523,849
Net appreciation in value based on valuation as at	27,065,737	27,513,974
Net assets at fair value of investment properties	565,014,116	589,037,823
Net assets per unit, at cost	8.9658	9.3587
Impact on net assets per unit for the appreciation in value	0.4511	0.4586
Net assets per unit at fair value	9.4169	9.8173

10.5 In accordance with article 21 of the Real Estate Investment Funds Regulations issued by Capital Market Authority (CMA), Saudi Arabia, the Fund Manager estimates the fair value of the Fund's real estate assets based on two valuations prepared by independent valuers to assess an impairment in the carrying value of any property. However, in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia, investments in real estate properties are carried at cost less accumulated depreciation less impairment in these financial statements. Impairments are recorded for other than temporary declines in the fair value of the respective properties below carrying values. The valuations of the investment properties as at December 31, 2020 were carried out by Value Strat and White Cubes, which are accredited valuers by Saudi Authority for Accredited Valuers (TAQEEM).

10.6 Work in progress represents a project of parking lot in Khalidiyah Business Center. The project is expected to be completed in the second quarter of the year 2021.

11. DIVIDEND PAYABLE

During the year ended December 31, 2020, the Fund declared cash dividends amounting SR 33.3 million (2019: SR 39.6 million). During the year ended, the Fund paid an amount of SR 35.7 million (2019: SR 38.85 million) to Unitholders and SR 7.5 million was also distributed subsequently to year end.

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12. RELATED PARTIES TRANSACTIONS AND BALANCES

Related party transactions comprise of transactions with the Fund Manager and other affiliates of SEDCO Capital in the ordinary course of business, undertaken on mutually agreed terms. All related party transactions are approved by the Fund Board. Significant related party transactions are summarized below:

<u>Related parties</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>Amount of transaction 2020</u>	<u>Amount of transaction 2019</u>	<u>Balance at 2020</u>	<u>Balance at 2019</u>
<u>Due to related parties</u>						
Saudi Economic and Development Securities Company ("Fund Manager")	Fund Manager	Management fees	5,845,879	5,981,591		
		Admin fees	291,705	299,080		
		Shariah advisory Financing arrangement fee	30,000	30,000		
		Brokerage and acquisition fee	--	1,552,500		
		Reimbursement of fees paid on behalf of the Fund	4,306,012	19,826,001	6,915,085	5,053,513
<u>Rent Receivable</u>						
Al Mahmal Trading Company	(Note 8) Affiliate	Rent income	(886,000)	(886,000)	--	--
<u>Accrued expenses and other payable</u>						
Al Mahmal Trading Company	(Note 13) Affiliate	Property Management and rent collection fees	5,065,219	4,336,971	1,465,270	1,050,873
Fund Board's remuneration	Fund Board	Remuneration	60,000	60,000	22,500	--

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13. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables at comprise of the following:

	December 31, 2020	December 31, <u>2019</u>
Maintenance fee payable (Note 12)	1,465,270	1,050,873
Security deposits	876,654	876,654
Custody fee payable	117,139	120,475
Valuation fee payable	113,000	62,785
Tadawul fees payable	95,000	95,000
Audit fee payable	50,000	36,250
Other payable	28,209	58,561
	<u>2,745,272</u>	<u>2,300,598</u>

14. DEFERRED REVENUE

This represents rental income received in advance in respect of investment properties. Movement in deferred revenue is as follows:

	December 31, 2020	December 31, <u>2019</u>
Balance at the beginning of the year	5,033,571	2,664,013
Rent received during the year	14,482,694	23,310,250
Adjusted against revenue earned	<u>(15,993,801)</u>	<u>(20,940,692)</u>
Balance at the end of the year	<u>3,522,464</u>	<u>5,033,571</u>

15. DERIVATIVE INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the year December 31, 2020, the Fund entered into two Profit Rate Swap (PRS) agreements with a commercial bank to swap its exposure to the variability in cash flows arising from variable portion of the agreed rate (SAIBOR) on financing facility obtained from a bank (Note 16). The maturity date of the instrument are October 15, 2023 and October 16, 2023 respectively. As at December 31, 2020, these derivative instruments have negative fair value.

The fair value and notional amount of the derivative instruments at fair value through profit or loss are as follows:

	December 31, 2020		December 31, 2019	
	Negative Fair Value	Notional Amount	Negative Fair Value	Notional Amount
Swap 1				
Nominal loan amount	(412,840)	250,000,000	--	--
Profit Rate Swap	0.91%	1.43%	--	--
Swap 2				
Nominal loan amount	(890,530)	240,000,000	--	--
Profit Rate Swap	0.91%	1.69%	--	--

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16. FINANCING FACILITY FROM A BANK

During 2018, the Fund has entered into a financing facility agreement with a local bank with an approved limit of SR 600 million repayable in a single bullet payment up to December 31, 2024 and carrying profit at twelve months SAIBOR + 1.9%. The loan has been obtained from Al Rajhi Bank through a Special Purpose Vehicle (SPV). The facility is secured against charge on all the investment properties except for Panda Jeddah as it is under progress.

During the year ended December 31, 2020, the Fund has negotiated a reduced profit rate to six months SAIBOR + 1.45%. All other terms as per the original financing facility agreement remains the same. As at December 31, 2020, the Fund has an undrawn amount of SR 110 million.

The Fund has booked financing charges based on effective profit method amounting to SR18.49 million (2019: SR 26.96 million).

The above-mentioned financing arrangement has been disclosed in the statements of financial position as follows:

	December 31, 2020	December 31, <u>2019</u>
Non-current liabilities	486,735,553	459,232,392
Current liabilities	1,468,518	25,326,863
	<u>488,204,071</u>	<u>484,559,255</u>

17. UNITS IN ISSUE

The Fund has issued 60 million units at the price of SR 10 per unit. During the year there was no movement in number of units. As at December 31, 2020 the number of units are 60,000,000 (December 31, 2019: 60,000,000)

18. OPERATING EXPENSES AND OTHER EXPENSES

Operating expenses and other expenses comprise of the following:

	For the year ended December 31, 2020	For the year ended December 31, <u>2019</u>
Operating expenses	7,393,088	7,131,517
Professional fees	1,109,361	362,873
Tadawul and Edaa fees (Note 7)	498,785	540,460
Custody fees (Note 7)	235,669	211,871
Board fees	60,000	60,000
Other expenses	705,777	716,384
	<u>10,002,680</u>	<u>9,023,105</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

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19. FINANCIAL RISK MANAGEMENT

19.1 Financial risk factors

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and operational risk.

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

Monitoring and controlling risks is primarily set up to be performed based on the limits established by the Fund Board. The Fund has its Terms and Conditions document that set out its overall business strategies, its tolerance of risks and its general risk management philosophy and is obliged to take actions to rebalance the portfolio in line with the investment guidelines. The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in foreign currency. The Fund does not have any significant foreign exchange risk since the majority of its transactions are carried out in SAR.

(ii) Commission rate risk

Commission rate risk is the risk that the value of the future cash flows of a financial instrument or fair values of fixed coupon financial instruments will fluctuate due to changes in market commission rates.

The Fund's commission rate risks arise mainly from its financing facility from a bank, which is at floating rate of interest and is subject to re-pricing on a regular basis.

Commission rate sensitivity

As at December 31, 2020, it is estimated that a general increase / decrease of 100 basis points in floating interest rates on financing facility, with all other variables held constant, would increase / decrease the Fund's net assets by approximately SR 5.1 million (2019: SR 5.6 million).

(iii) Price risk

Price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements. The price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds. As of the date of statement of financial position, the Fund is not materially exposed to price risk.

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NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Saudi Arabian Riyals)

19. FINANCIAL RISK MANAGEMENT (continued)

19.1 Financial risk factors (continued)

(b) Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Fund is exposed to credit risk for bank balances and rent receivables.

Its Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits.

As at the reporting date, the Fund's maximum exposure to credit risk is represented by the respective carrying values of its financial assets exposed to credit risk which is as follows:

Maximum exposure to credit risk at the reporting date:

	December 31, 2020	December 31, 2019
<u>Assets</u>		
Cash at bank	20,585,698	34,534,020
Rent receivable (Note 8)	15,919,638	7,634,432
	<u>36,505,336</u>	<u>42,168,452</u>

(c) Liquidity risk

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

The Fund's terms and conditions provide redemption of units on liquidation of the Fund. The Fund's financial liabilities primarily consist of payables which are expected to be settled within one month from the statement of financial position date.

The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise, principally through rental income, or by taking short / long term loans from the financial institutions. As at December 31, 2020, the Fund has an unutilized credit facility from bank a amounting to SR 110 million (December 31, 2019: SR 110 million).

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19 FINANCIAL RISK MANAGEMENT (continued)

19.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

All financial liabilities of the Fund at the statement of financial position date are current.

Financial liabilities	<u>As at December 31, 2020</u>					<u>As at December 31, 2019</u>				
	<u>0 to 3 months</u>	<u>Less than 1 year</u>	<u>More than 1 year</u>	<u>Contractual liability</u>	<u>Carrying amount</u>	<u>0 to 3 months</u>	<u>Less than 1 year</u>	<u>More than 1 year</u>	<u>Contractual liability</u>	<u>Carrying amount</u>
Derivative instruments at fair value through profit or loss	--	1,303,370	--	1,303,370	1,303,370	--	--	--	--	--
Dividends payable	7,500,000	--	--	7,500,000	7,500,000	9,900,000	--	--	9,900,000	9,900,000
Due to related parties	6,915,085	--	--	6,915,085	6,915,085	5,053,513	--	--	5,053,513	5,053,513
Accrued expenses and other payable	2,745,272	--	--	2,745,272	2,745,272	2,300,598	--	--	2,300,598	2,300,598
Deferred revenue	3,522,464	--	--	3,522,464	3,522,464	5,033,571	--	--	5,033,571	5,033,571
Financing facility from a Bank	--	1,468,518	486,735,553	488,204,071	488,204,071	--	25,326,863	459,232,392	484,559,255	484,559,255
Total undiscounted financial liabilities	<u>20,682,821</u>	<u>2,771,888</u>	<u>486,735,553</u>	<u>510,190,262</u>	<u>510,190,262</u>	<u>22,287,682</u>	<u>25,326,863</u>	<u>459,232,392</u>	<u>506,846,937</u>	<u>506,846,937</u>

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(Expressed in Saudi Arabian Riyals)

19 FINANCIAL RISK MANAGEMENT (continued)

19.1 Financial risk factors (continued)

(d) Operational risk

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

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

19.2 Fair value estimation

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 a financial asset or a financial 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.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All financial assets and financial liabilities for which fair value is measured or disclosed in the financial statements are categorised 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.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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20. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following is a brief on the other new IFRS and amendments to IFRS, effective for annual periods beginning on or after 1 January 2021:

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1-Jun-2020	Amendments to IFRS 16: Leases for COVID-19 rent related concessions	The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.
1-Jan-22	Amendments to IAS 1 – “Classification of Liabilities as Current or Non-current”	In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify: <ul style="list-style-type: none"> • What is meant by a right to defer settlement • That a right to defer must exist at the end of the reporting period • That classification is unaffected by the likelihood that an entity will exercise its deferral right • That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification the amendment is not expected to have an impact on the financial statements of the Company.

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21. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1-Jan-22	Reference to the Conceptual Framework – Amendments to IFRS 3	In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations -Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB’s Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately.
1-Jan-22	Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.
1-Jan-22	Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a ‘directly related cost approach’.
1-Jan-22	Amendments to IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities	The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. There is no similar amendment proposed for IAS 39. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment

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21. LAST VALUATION DAY

The last valuation day of the year was December 31, 2020 (2019: December 31, 2019).

22. IMPACT OF COVID-19

At the beginning of the year 2020, the presence of Coronavirus disease COVID-19 was confirmed, which spread worldwide, causing disturbance to business, commercial and economic activities.

The Fund's Board has approved a discount policy to deal with such requests in a manner that protects the interests of both unitholders and tenants. The policy focuses on analyzing the sector to which the tenant belongs, estimates a timeframe, and sets the negotiations' parameters.

Based on the approved discount policy, the Fund Manager negotiated with the affected tenants. The outcome was as follows: the total value of discounts granted to affected tenants represents approximately 9% of the Fund's total annual rental income.

However, the Fund continues to determine net asset values with the frequency set out in the memorandum, consistently applying valuation policies and reflective of prevailing market conditions. In determining the investment valuations as of December 31, 2020, the Fund has evaluated and considered the potential impact (based on the best available information) of the uncertainties caused by the COVID-19 pandemic on each individual investment and has taken into account the economic and commercial activities.

Any changes made to valuations to estimate the overall impact of COVID-19 is subject to very high levels of uncertainty, as little reasonable and supportable forward-looking information is currently available on which to base those changes.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty. Therefore, the actual outcomes may be significantly different from those projected. Management will continue to monitor the situation, and any changes required will be reflected in future reporting periods.

23. EVENTS AFTER THE END OF THE REPORTING PERIOD

There are no events subsequent to the statement of financial position date which requires adjustments of or disclosure in the financial statements or notes thereto.

24. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Fund Board on Rajab 24, 1442H, corresponding to March 08, 2021.

The Fund's report is available upon request free of charge

Important Notice

- There are no material changes to the Fund's Terms and Conditions except for what is mentioned in this report.
- The Fund doesn't invest substantially in other investment funds.
- There's no other information that would enable the unitholders of making an informed judgement about the Fund's activities during the period.
- There is no other data or information required by the Investment Funds Regulations.
- Other than what is mentioned in this report, there are no material changes that occurred during the period and affected the performance of the Fund.
- The Fund Manager has not waived or rebated any fees.

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For more information



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