

SEDCO CAPITAL REIT FUND
(Managed by Sedco Capital Company)

FINANCIAL STATEMENTS
For the period from April 1, 2018 to December 31, 2018
with
INDEPENDENT AUDITORS'
REPORT TO THE UNITHOLDERS



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Independent auditors' 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 SEDCO Capital Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2018, and the related statements of comprehensive income, changes in equity attributable to unitholders and cash flows for the period from 01 April 2018 to 31 December 2018, 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 31 December 2018, and its financial performance and its cash flows for the period from 01 April 2018 to 31 December 2018 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other 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 of 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 auditors' report

To the unitholders of Sedco Capital REIT Fund (continued)

Key Audit Matters (continued)

The Key audit matter	How the matter was addressed in our audit
<p>Revenue from properties amounted to SR 37.56 million for the period from 01 April 2018 to 31 December 2018.</p> <p>Generally revenue from properties is recognized on a straight line basis over a lease term.</p> <p>These include spreading of tenant incentives and guaranteed increases. These balances require adjustments made to lease rental income to ensure that is recorded on a straight line basis over the lease term in accordance with IAS 17: "Leases" and IFRS 15: "Revenue from contracts".</p> <p>Revenue recognition is considered a key audit matter in view of the risk that management may override controls to intentionally misstate revenue transactions in order to achieve financials targets, either through adjusting estimates at the period end or recording fictitious transactions in the business.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> evaluating the appropriateness of the lease rental income recognition policy to assess whether it is in accordance with IAS 17: "Leases" and IFRS 15: "Revenue from contracts". assessing the design and implementation of management's key internal controls over the completeness, existence and accuracy of lease rental income with specific focus on whether lease rental income is appropriately recorded over the lease term as per the terms of the lease contract. performing detailed testing on a sample of lease rental income transactions to review the lease contracts entered into with customers to assess whether lease rental income recorded is as per the contract terms and to identify any non-standard lease clauses and to assess the appropriateness of the rental income accounting. performing detailed substantive analytical procedures of lease rental income and the timing of its recognition. assessing the appropriateness and completeness of the disclosures required for the revenue from investment properties.
<p>As at 31 December 2018, the carrying value of investment properties held by the Fund was SR 1,028.75 million.</p> <p>The investment properties are stated measured at cost on initial recognition and subsequently at cost less accumulated depreciation and impairment losses, if any. However, the fair value of the investment property is disclosed along with its impact on equity per unit.</p> <p>In accordance with the requirements of relevant accounting standards, the Fund is required to assess indicators of impairment on its property at each reporting date. In case such indicators are identified, the recoverable amount of such property is required to be determined.</p> <p>As part of its assessment of impairment indicators, the Fund reviews both the internal and external indicators of impairment including but not limited to net cash outflows or operating losses, physical wear and tear of assets and adverse market changes or conditions. Moreover, the assessment of recoverable amounts entails the use of complex valuation techniques and significant management judgement on key assumptions. Accordingly, this has been identified as key audit matter.</p>	<p>Our audit procedures in response to the assessed risk of material misstatement in valuation of investment properties comprised of:</p> <ul style="list-style-type: none"> obtaining an understanding of the management processes for identification, and mitigation of valuation risk; perform test of details on the costs capitalized and ensure that all costs are appropriately capitalized; assess the appropriateness and completeness of factors considered by the Fund Manager in impairment indicator assessment; and for investment properties where there are impairment indicators, we perform the following procedures: <ul style="list-style-type: none"> obtain the valuation reports prepared by independent valuers and evaluate the appropriateness of the critical assumptions including discount rate, exit yield rate, annual rental income, operating expenditure, occupancy, escalations and inflation rates. Further, perform sensitivity analysis, including assessment of the effect of reasonably possible reductions in occupancy and increases in operating expenditures on the forecasted cash flows to evaluate the impact; and evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions and judgements.



Independent auditors' report

To the unitholders of SEDCO Capital REIT Fund (continued)

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

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, 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 are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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



Independent auditors' report

To the unitholders of SEDCO Capital REIT Fund (continued)

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

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 auditors' 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.

**For KPMG Al Fozan & Partners
Certified Public Accountants**

Nasser Ahmed Al Shutairy
License No. 454



Jeddah, 17 Rajab 1440H
Corresponding to 24 March 2019

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

STATEMENT OF FINANCIAL POSITION
As at December 31, 2018
Expressed in Saudi Arabian Riyals

	<i>Notes</i>	<i>December 31, 2018</i>
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents		111,955,644
Rent receivable	8	15,219,300
Prepayments and other receivables		22,557,940
Total current assets		149,732,884
Non-current assets		
Investment properties	9	1,028,748,945
Total assets		1,178,481,829
<u>LIABILITIES</u>		
Current Liabilities		
Payable for the acquisition of investment property	9	69,000,000
Dividends Payable	10	9,150,000
Due to related parties	11	17,016,343
Accrued expenses and other payable	12	3,326,670
Deferred revenue	13	2,664,013
Financing facility from a Bank	14	22,178,566
Total current liabilities		123,335,592
Non-current liabilities		
Financing facility from a Bank	14	476,162,320
Total liabilities		599,497,912
Equity attributable to unitholders		578,983,917
Units in issue (number)	15	60,000,000
Equity per unit (SAR)		9.6497

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

S. Alhathloul
C. Alhathloul

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

STATEMENT OF COMPREHENSIVE INCOME
For the period from April 1, 2018 to December 31, 2018
Expressed in Saudi Arabian Riyals

	<i>Notes</i>	For the period from April 1, 2018 to December 31, <u>2018</u>
Rental income		37,555,977
EXPENSES		
Depreciation	9	6,985,739
Management , administrative and sharia fees	7	4,709,722
Operating and other expenses	16	7,285,090
Impairment on investment properties	9	9,798,729
Financing fee		2,342,780
Total expenses		<u>31,122,060</u>
Net profit for the period		<u>6,433,917</u>
Other comprehensive income for the period		<u>—</u>
Total comprehensive income for the period		<u>6,433,917</u>

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

S. Ahmad
Circled signature

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO UNITHOLDERS

For the period from April 1, 2018 to December 31, 2018

Expressed in Saudi Arabian Riyals

	For the period from April 1, 2018 to December 31, <u>2018</u>
Total comprehensive income for the period	6,433,917
Increase in equity from unit transactions during the period	
Proceeds from initial subscription of units (See note 15)	600,000,000
Dividends	<u>(27,450,000)</u>
Equity attributable to unitholders as at December 31, 2018	<u>578,983,917</u>

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

S. Abu Alw


SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

STATEMENT OF CASH FLOWS

For the period from April 1, 2018 to December 31, 2018

Expressed in Saudi Arabian Riyals

	<i>Note</i>	For the period from April 1, 2018 to December 31, <u>2018</u>
Net profit for the period		6,433,917
Cash flow from operating activities		
<i>Adjustment for:</i>		
Depreciation	9	6,985,739
Impairment	9	9,798,729
		<u>23,218,385</u>
Net changes in operating assets and liabilities:		
Rent receivable		(15,219,300)
Prepayments and other receivables		(22,557,940)
Payments made for the acquisition of Investment properties		(976,533,413)
Due to related parties		17,016,343
Accrued expenses and other payables		3,326,670
Deferred income		2,664,013
Financing facility from a Bank		498,340,886
Net cash used in operating activities		<u>(469,744,356)</u>
Cash flow from financing activities		
Proceeds from initial subscription of units		600,000,000
Dividend paid during the period		<u>(18,300,000)</u>
Net cash generated from financing activities		<u>581,700,000</u>
Cash and cash equivalent at the end of the period		<u>111,955,644</u>

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

S. Almutairi
Ch. S. Almutairi

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2018 to December 31, 2018

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 The SEDCO Holding (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" as a licensed person under License No. 11157-37 dated 23/04/1430 H corresponding to 19/4/2009 manages the Fund. The Fund Manager conducts following securities' activities:

- a) Dealing;
- b) Arranging;
- c) Managing;
- d) Advising;
- 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 invested 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 Arabian Monetary Agency 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 Capital Market Authority (the "CMA") on 16 Rabi ul Awal 1439 H (corresponding to December 4, 2017). The offering period for the subscription of the units was from 24 January 2018 to 20 February 2018. Unitholders subscribed for the units of the Fund during the offering period and cash was held in 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.

NOTES TO THE FINANCIAL STATEMENTS
For the period from April 1, 2018 to December 31, 2018
Expressed in Saudi Arabian Riyals

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. Since these are the first financial statements of the Fund, no comparative information is included in these financial statements.

3 BASIS OF MEASUREMENT

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

4 FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the 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 Riyal ("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 profit or loss.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the period from April 1, 2018 to December 31, 2018
Expressed in Saudi Arabian Riyals

5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

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 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 or CGU exceeds its recoverable amount. Impairment losses are recognised in statement of comprehensive income.

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

The principal accounting policies applied in the preparation of these financial statements are set out below.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the period from April 1, 2018 to December 31, 2018
Expressed in Saudi Arabian Riyals

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the period from April 1, 2018 to December 31, 2018
Expressed in Saudi Arabian Riyals

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

6.5 *Provision*

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

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 commission 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. Any capital gain resulting from the sale of investment property is recognized upon the execution of the corresponding sale contract.

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 commission 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 commission income and expense, the effective commission 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.

SEDCO CAPITAL REIT FUND
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NOTES TO THE FINANCIAL STATEMENTS
For the period from April 1, 2018 to December 31, 2018
Expressed in Saudi Arabian Riyals

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Fund.

6.12 *Equity per unit*

The equity per unit is calculated by dividing the Equity 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 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.

Financing arrangement fees

The Fund Manager is entitled to receive a fee equal to 1.25% for each external bank 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 of 2.50% and an 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 of SAR 30,000 one-time fee plus 0.04% of NAV annually as per the latest audited financial statements not to be less than SAR 200,000.

SEDCO CAPITAL REIT FUND
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NOTES TO THE FINANCIAL STATEMENTS
For the period from April 1, 2018 to December 31, 2018
Expressed in Saudi Arabian Riyals

7 ADMINISTRATION AND OTHER FEES (continued)

Edaa fees

The depository centre is entitled to receive Edaa 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).

8 RENT RECEIVABLE

This represents rent receivable from investment properties in accordance with the terms of the corresponding tenancy agreements. Rent receivable as at December 31, 2018 is as follows:

	For the period from April 1, 2018 to December 31, 2018
Related Party (See note 11)	355,761
Other tenants	15,328,302
	15,684,063
Expected credit losses	(464,763)
	15,219,300

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost.

9 INVESTMENT PROPERTIES

9.1 Movement in investment properties for the period from April 1, 2018 to December 31, is as follows.

Acquisition of properties during the period	1,045,533,413
Depreciation charge for the period	(6,985,739)
Impairment loss	(9,798,729)
Net book value at the end of the period	1,028,748,945

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the period from April 1, 2018 to December 31, 2018
Expressed in Saudi Arabian Riyals

9 INVESTMENT PROPERTIES (continued)

9.2 The Fund has acquired some of the below mentioned properties along with the related assets and liabilities from SEDCO Capital Real Estate Income Fund I (the fund managed by SEDCO Capital). The investment properties comprise of following properties:

	Type	Location	Cost of acquisition	Addition	Depreciation	Impairment	Net book value December 31, 2018	Fair value December 31, 2018
Khalidiyah Business Center (See 9.3)	Commercial	Jeddah	148,645,000	339,706	1,581,168	--	147,403,538	154,177,368
Al Ajazera Compound (See 9.3)	Residential	Riyadh	67,465,000	--	394,757	--	67,070,243	67,658,524
Panda Jeddah	Commercial	Jeddah	39,300,000	--	210,206	--	39,089,794	39,800,000
Panda Riyadh	Commercial	Riyadh	78,765,000	--	424,140	--	78,340,860	81,600,000
Al Harmeen	Commercial	Jeddah	63,015,000	254,676	978,013	--	62,291,663	65,500,000
Al Rawda Business Center (See 9.3)	Commercial	Jeddah	126,495,000	--	2,135,846	(9,798,729)	114,560,425	116,678,704
Burj AlHayat	Commercial	Riyadh	41,260,000	--	593,548	--	40,666,452	41,035,000
Saudi Fransi Building	Commercial	Dammam	28,519,294	--	196,323	--	28,322,971	28,350,000
Panda Al rayan	Commercial	Dammam	62,545,580	--	295,047	--	62,250,533	68,000,000
Alhokair Time	Commercial	Dammam	34,206,942	--	176,691	--	34,030,251	34,325,000
Ajdam Walk	Commercial	Al Khobar	354,722,215	--	--	--	354,722,215	354,722,215
			1,044,939,031	594,382	6,985,739	(9,798,729)	1,028,748,945	1,051,846,811

9.3 The Fund had recorded an impairment loss of SR 22.51 million on these properties due to permanent decline in valuation of these properties in June 30, 2018. However based on December 31, 2018 valuation, the Fund has recorded a reversal amounting to SR 12.31 million, resulting in a net impairment loss of SR 9.8 million for the period from April 1, 2018 to December 31, 2018. Key assumptions taken for valuation as at June 30, 2018 and December 31, 2018 for these properties are as follows:

	June 30, 2018				December 31, 2018			
	Discounts	Exit Yield	Occupancy	Operational expense	Discounts	Exit Yield	Occupancy	Operational expense
Khalidiyah Business Center	10.5%	7%	86%	16%	7% to 10.5%	7% to 8%	82%	12% to 15 %
Jazeera Compound*	10.5%	5.7%	82%	45%	8% to 10%	7.7% to 8.1%	86% to 97%	20% to 24%
Rawdah Business Center	10.5%	8%	75%	12.8%	7% to 10.5%	7% to 8%	75% to 83%	12% to 15%

*The Fund manager has assumed the operational expenditure in the range of 20% to 24% of rental income to determine the valuation of Al Jazeera Compound, which was based on the assumption that the Fund Manager will take cost control initiatives to reduce their operational expenditures by 10% to 15%.

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9. INVESTMENT PROPERTIES (continued)

- 9.4 At December 31, 2018, SR 69 million is payable for acquisition of Ajdan Walk property.
- 9.5 Fund has obtained loan from Al Rajhi bank for acquisition of Saudi Fransi Building, Panda Al Rayan, Alhokair time and Ajdan Walk.
- 9.6 At the reporting date had the investment properties been carried at their respective fair values, the net asset value and per unit value of the Fund would have been as follows:

	December 31, 2018
Equity as reported	578,983,917
Net appreciation in value based on valuation as on December 31, 2018	23,097,866
Equity at fair value of investment properties	602,081,783
Equity per unit, at cost	9.6497
Impact on equity per unit for the appreciation in value	0.3850
Equity per unit at fair value	10.0347

- 9.7 In accordance with article 21 of the Real Estate Investment Fund Regulations issued by Capital Market Authority (CMA), Saudi Arabia, the Fund manager estimate the fair value of the Fund's real estate assets based on two valuations prepared by the independent valuers to assess an impairment in the carrying value of any property. However, in accordance with IFRS as endorsed in Kingdom of Saudi Arabia, investment in real estate properties are carried at cost less accumulated depreciation less impairment in these financial statements.

The valuation of the investment properties as at December 31, 2018 is carried out by Value Strat and White Cubes in December 2018 and Jones Lang LaSalle IP Inc. (JLL) and Esnad Real Estate in June 30, 2018, which are accredited valuers by Saudi Authority for Accredited Valuers (TAQEEM). Key assumptions for the valuation of the investment properties include the discount rate (8% to 10.5%; (June 30, 2018: 7% to 8.75%)) and exit yield rate (6 % to 8.5 %; (June 30, 2018: 7.10% to 8.74%)).

10 DIVIDEND PAYABLE

During the period from April 1 2018 to December 31, 2018 the Fund has distributed cash dividend amounting to SR 18.3 million. As at December 31, 2018 cash dividend amounting R 9.15 million is paid subsequent to the year end.

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11 RELATED PARTY 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 for the period ended December 31, 2018 are summarized below:

<u>Related party</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>Amount of transaction 2018</u>	<u>Balance at December 31, 2018</u>
<u>Due to related party</u>				
Saudi Economic and Development Securities Company ("Fund Manager")	Fund Manager	Management fees	4,464,019	
		Admin fee	223,201	
		Financing arrangement fees	7,500,992	
		Acquisition and brokerage fees	7,804,688	
		Shariah advisory fee	22,500	
		Reimbursement of fees paid on behalf of the fund	204,295	17,016,343
<u>Rent Receivable</u> (See note 8)				
Al Mahmal Trading Company		Rent income	(658,227)	(355,761)
<u>Accrued expenses and other payable</u>	(See note 12)			
Al Mahmal Trading Company	Affiliate	Property Management and rent collection fees	4,645,765	1,709,311
Fund Board's remuneration	Fund Board	Remuneration	45,000	--

12 ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables at December 31, 2018 comprise of the following:

Maintenance Fee Payable (See note 11)	1,709,311
Security deposits	1,033,904
Custody fee Payable	207,938
Income Purification Payable	169,642
Tadawul Fees Payable	95,000
Valuation Fee Payable	61,500
Audit fee payable	40,000
Other payable	9,375
	<u>3,326,670</u>

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13 DEFERRED REVENUE

This represents rental income received in advance in respect of investment properties. Movement in deferred revenue for the period ended December 31, 2018 is as follows:

	For the period from April 1, 2018 to December 31, 2018
Rent received during the period	12,091,465
Adjusted against revenue earned	(9,427,452)
Balance at the end of the period	2,664,013

14 FINANCING FACILITY FROM A BANK

The Special Purpose Vehicle has entered into a financing facilities 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 six months Sibor + 1.9%. The loan has been obtained from Al Rajhi Bank through the Special Purpose Vehicle (SPV). The facility is secured against charges on the following Fund's investment properties i.e. Saudi Fransi Building, Panda Al Rayan, Alhokair Time and Ajdan Walk. As at December 31, 2018, the Fund has an undrawn amount of SR 95 million.

15 EQUITY UNITS

The Fund has issued 60 million units at the price of SR 10 per unit. At December 31, 2018, the Fund has distributed SR 27.45 million as dividend and booked SR 6.4 million as income for the period starting from April 1, 2018 to December 31, 2018.

16 OPERATING EXPENSES AND OTHER EXPENSES

Operating expenses and other expenses for the period from April 1, 2018 to December 31, 2018 comprise of the following:

Operating expenses	4,747,322
Professional fees	695,108
Tadawul and edaa fees	489,395
ECL impairment	464,763
Custody fees	207,938
Board fees	45,000
Other expenses	635,564
	7,285,090

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17 FINANCIAL RISK MANAGEMENT

17.1 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 sets 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, 2018, 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 equity by approximately SR 5,059,874.

(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 exposed to price risk.

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17 FINANCIAL RISK MANAGEMENT (continued)

17.1 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, 2018
<u>Assets</u>	
Cash and cash equivalents	111,955,644
Rent receivable (See note 8)	<u>15,219,300</u>
	<u>127,174,944</u>

Rent receivable represent the receivable amount net of expected credit losses. The Fund has adopted a simplified approach wherein related counterparties would receive a 1 year ECL charge, depending on the risk ratings of the counterparties. Additionally, any receivable considered to be in default as per the terms of the contractual agreement would be provisioned using a higher risk grade.

(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 for 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, 2018, the fund has an unutilized credit facility from bank amounting to SR 95 million.

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

17 FINANCIAL RISK MANAGEMENT (continued)

17.1 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.

17.2 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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18 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Following are the new standards and amendments to standards are effective for annual periods beginning after January 1, 2019 and earlier application is permitted; however, the Fund has not early adopted them in preparing these financial statements.

(a) IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including 'IAS 17 – Leases', 'IFRIC 4 – Determining whether an Arrangement contains a Lease', 'SIC-15 - Operating Leases – Incentives' and 'SIC 27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

Determining whether an arrangement contains a lease

On transition to IFRS 16, the Fund can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

Transition

As a lessee, the Fund can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Fund currently plans to apply IFRS 16 initially on January 1, 2019. The Fund has not yet determined which transition approach to apply. As a lessor, the Fund is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

(b) Annual Improvements to IFRSs 2015–2017 Cycle

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – clarifies how a Fund accounts for increasing its interest in a joint operation that meets the definition of a business.
- If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

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18 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(b) Annual Improvements to IFRSs 2015–2017 Cycle (continued)

- IAS 12 Income Taxes – clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits i.e. in profit or loss, other comprehensive income or equity.
- IAS 23 Borrowing Costs – clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

None of these annual improvements to IFRSs 2015-17 are expected to have significant impact on the financial statement of the Fund.

(c) Other Amendments

The following new or amended standards which are not yet effective and neither expected to have a significant impact on the Fund's financial statements.

- IFRIC 23 Uncertainty over Income Tax Treatments – clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendments, Curtailment or Settlement (Amendments to IAS 19).

19 LAST VALUATION DAY

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

20 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Fund Board on 13 Rajab 1440H, corresponding to 20 March 2019.