

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital)

FINANCIAL STATEMENTS
For the year ended December 31, 2021
with
INDEPENDENT AUDITOR'S
REPORT TO THE UNITHOLDERS

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital)

FINANCIAL STATEMENTS
For the year ended December 31, 2021

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KPMG Professional Services

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كي بي إم جي للاستشارات المهنية

مركز زهران للأعمال
شارع الأمير سلطان
ص.ب 55078
جده 21534
المملكة العربية السعودية
سجل تجاري رقم 4030290792
المركز الرئيسي في الرياض

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 SEDCO Capital Company (the "Fund Manager"), which comprise the statement of financial position as at December 31, 2021, comprehensive income, changes in net assets attributable to the 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, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the 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.

The key audit matter	How the matter was addressed in our audit
<p>Revenue:</p> <p>Revenue from properties amounted to SAR 72.9 million for the year ended December 31, 2021.</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 IFRS 16: "Leases".</p>	<p>Revenue:</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 IFRS 16: "Leases".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.

KPMG Professional Services, a professional closed joint stock company registered in the Kingdom of Saudi Arabia. With the paid-up capital of (25,000,000) SAR. (Previously known as "KPMG Al Fozan & Partners Certified Public Accountants") A non-partner member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

كي بي إم جي للاستشارات المهنية شركة مبنية مساهمة مقفلة، مسجلة في المملكة العربية السعودية، رأس ماله (25,000,000) ريال سعودي مدفوع بالكامل، المسماة سابقاً "شركة كي بي إم جي الفوزان وشركاه محاسبون ومراجعون قانونيون". و هي عضو غير شريك في الشبكة العالمية لشركات كي بي إم جي المستقلة والتابعة لـ كي بي إم جي العالمية المحدودة، شركة انجليزية محدودة بضمان. جميع الحقوق محفوظة

Independent Auditor's 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: (continued)</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 financial targets, either through adjusting estimates at the period end or recording fictitious transactions in the business.</p> <p>Investment properties:</p> <p>As at December 31, 2021, the carrying value of investment properties held by the Fund was SAR 1,634 million.</p> <p>The investment properties are 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 net assets per unit.</p> <p>In accordance with the requirements of relevant accounting standards, the Fund is required to assess indicators of impairment on its properties 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 a key audit matter.</p>	<p>Revenue: (continued)</p> <ul style="list-style-type: none"> ▪ performing detailed testing on a sample basis 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>Investment properties:</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 assessments; 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, through involving specialists, 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 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)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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, 28 March 2022
Corresponding to 25 Sha'aban 1443H

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital)

STATEMENT OF FINANCIAL POSITION

As at December 31, 2021

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	December 31, 2021	December 31, <u>2020</u>
<u>ASSETS</u>			
Current assets			
Cash at banks		62,053,842	20,585,698
Rent receivable	8	27,500,726	15,919,638
Prepayments and other receivables	9	5,169,476	6,260,042
Derivative instruments at fair value through profit or loss	16	852,014	--
Total current assets		95,576,058	42,765,378
Non-current assets			
Investment properties	10	1,633,965,863	1,005,373,263
Total assets		1,729,541,921	1,048,138,641
<u>LIABILITIES</u>			
Current Liabilities			
Dividends payable	12	9,750,000	7,500,000
Due to related parties	13	4,500,000	6,915,085
Accrued expenses and other payables	14	38,655,155	2,745,272
Deferred revenue	15	17,273,031	3,522,464
Derivative instruments at fair value through profit or loss	16	--	1,303,370
Financing facility from a bank	17	4,141,929	1,468,518
Total current liabilities		74,320,115	23,454,709
Non-current liabilities			
Financing facility from a bank	17	615,511,202	486,735,553
Total liabilities		689,831,317	510,190,262
Net assets attributable to the unitholders		1,039,710,604	537,948,379
Units in issue (number)	18	117,500,000	60,000,000
Net assets per unit (SAR)	10.4	8.8486	8.9658

S. Abu AW

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

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2021
(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	December 31, 2021	December 31, <u>2020</u>
INCOME			
Rental income		72,898,962	68,104,900
Murabaha income		11,314	3,250
		<u>72,910,276</u>	<u>68,108,150</u>
EXPENSES			
Management, administrative and shariah fees	7&13	5,830,518	6,167,584
Depreciation	10	16,194,638	16,086,432
Impairment on investment properties	10	60,147,719	3,455,936
Expected credit losses	8	249,832	2,000,000
Loss on derivative instruments at fair value through profit or loss	16	1,231,454	2,178,483
Financing fees and charges	17	12,480,293	18,495,689
Operating expenses and other expenses	19	12,213,597	10,002,680
Total expenses		<u>108,348,051</u>	<u>58,386,804</u>
Net (Loss) / Profit for the Year		<u>(35,437,775)</u>	<u>9,721,346</u>
Other Comprehensive Income		--	--
Total Comprehensive (Loss) / Income for the year		<u>(35,437,775)</u>	<u>9,721,346</u>

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

SEDCO CAPITAL REIT FUND

(Managed by SEDCO Capital)

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended December 31, 2021

(Expressed in Saudi Arabian Riyals)

	For the year ended December 31,
Net assets attributable to Unitholders at January 1, 2020	561,523,849
Total comprehensive income for the year ended December 31, 2020	9,721,346
Dividends (Note 12)	<u>(33,296,816)</u>
Net asset attributable to unitholders as at December 31, 2020	537,948,379
Total comprehensive loss for the year ended December 31, 2021	(35,437,775)
Contributions by holders of units:	
Issue of units during the year	575,000,000
Dividends (Note 12)	(37,800,000)
Net assets attributable to unitholders as at December 31, 2021	<u>1,039,710,604</u>

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

SEDCO CAPITAL REIT FUND

(Managed by SEDCO Capital)

STATEMENT OF CASH FLOWS

For the year ended December 31, 2021

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	For the year ended December 31, 2021	For the year ended December 31, 2020
Net (loss) / profit for the year		(35,437,775)	9,721,346
Cash flow from operating activities:			
<u>Adjustment for:</u>			
Depreciation	10	16,194,638	16,086,432
Impairment	10	60,147,719	3,455,936
Unrealised loss from financial derivatives		852,014	2,178,482
Expected credit losses	8	249,832	2,000,000
		<u>42,006,428</u>	<u>33,442,196</u>
Net changes in operating assets and liabilities:			
Rent receivable		(11,830,920)	(10,285,206)
Prepayments and other receivables		1,090,566	4,266
Due to related parties		(2,415,085)	1,861,572
Accrued expenses and other payables		2,906,258	444,674
Derivative instruments at fair value through profit or loss		(3,007,398)	(875,112)
Deferred income		13,750,567	(1,511,107)
Net cash (used in) / generated from operating activities		<u>42,500,416</u>	<u>23,081,283</u>
Cash flow from investing activities			
Payments made for the acquisition of investment properties		(340,765,625)	--
Payments made for work in progress		(6,165,707)	(4,977,605)
Net cash used in from investing activities		<u>(346,931,332)</u>	<u>(4,977,605)</u>
Cash flow from financing activities:			
Proceeds from issuance of new units		250,000,000	--
Proceeds from loans and borrowings		135,000,000	--
Financing facility from a bank		(3,550,940)	3,644,816
Dividend paid during the year	12	(35,550,000)	(35,696,816)
Net cash generated from / (used in) from financing activities		<u>345,899,060</u>	<u>(32,052,000)</u>
Net change in cash at banks:		41,468,144	(13,948,322)
Cash at banks at beginning of the year		20,585,698	34,534,020
Cash at banks at end of the year		<u>62,053,842</u>	<u>20,585,698</u>
Non-cash transactions:			
The non-cash transactions consist mainly of the below:			
- Real estate transaction tax (RETT)	14	33,003,625	--
- In-kind contributors	18	325,000,000	--

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

S. Al-Ahmed
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SEDCO CAPITAL REIT FUND

(Managed by SEDCO Capital)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021

(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 23/04/1430 H corresponding to 19/4/2009, manages the Fund. The Fund Manager conducts following securities activities:

- a) Dealing;
- b) Arranging;
- c) Managing and operating funds;
- 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 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 Capital Market Authority (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 SNB Capital. The Fund commenced its activities on April 01, 2018 (the "inception date").

During the current year 2021, the Fund initiated a capital increase process to acquire 8 new investment properties from a fund that is managed by the Fund Manager. (Refer to note 18).

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 is governed by the Investment Funds Regulations (the "Regulations"), issued by the CMA pursuant to Resolution No. 1/219/2006 dated Dhul Hijjah 3, 1427H (corresponding to December 24, 2006) as amended by the Resolution of the Board of the CMA No. 2/22/2021 dated 12/7/1442 H, corresponding to (24/2/2021G), detailing requirements for investment funds within the Kingdom of Saudi Arabia.

SEDCO CAPITAL REIT FUND

(Managed by SEDCO Capital)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021

(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 Chartered and Professional 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.

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 except for financial investments derivative instruments at fair value through profit or loss that are carried at fair value.

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.

SEDCO CAPITAL REIT FUND

(Managed by SEDCO Capital)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021

(Expressed in Saudi Arabian Riyals)

5. **CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)**

Impairment of investment properties (continued)

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.

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 for what is mentioned in note (20), , the accounting policies applied in these financial statements are the same as those applied in the last annual financial statements. The following is the most significant accounting policies applied by the fund:

6.1 *Cash at banks*

For the purposes of the statement of cash flows, cash at banks consist 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 at banks 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.

SEDCO CAPITAL REIT FUND

(Managed by SEDCO Capital)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021

(Expressed in Saudi Arabian Riyals)

6. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

6.2 *Financial instruments (continued)*

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.

Derivative Financial Instruments

The fund enters into derivative financial instruments which are held to manage its exposure to interest rate risk; credit risk; and foreign exchange rate risk. Held derivatives include swaps.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each financial position date. The resulting gain/loss is recognized in the statement of income immediately.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability.

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.

SEDCO CAPITAL REIT FUND

(Managed by SEDCO Capital)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021

(Expressed in Saudi Arabian Riyals)

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

6.4 *Impairment of non-financial assets*

The Company reviews the carrying amounts of non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use.

Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

6.5 *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.

6.6 *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.

6.7 *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.

6.8 *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.

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6. SIGNIFICANT ACCOUNTING POLICIES (continued)

6.9 *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.

6.10 *Dividend payable*

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

6.11 *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.

6.12 *Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the financial position 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.

6.13 *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 fair value of the Fund's net assets 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.

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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 and amortized on the loan lifetime.

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 was entitled to receive annual sharia fee amounting to SAR 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 SAR 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>2021</u>	December 31, <u>2020</u>
Rent receivable	30,784,779	18,953,859
Expected credit losses	(3,284,053)	(3,034,221)
	<u>27,500,726</u>	<u>15,919,638</u>

SEDCO CAPITAL REIT FUND

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8. RENT RECEIVABLE (continued)

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

	<u>2021</u>	<u>2020</u>
Balance at 1 January	3,034,221	1,034,221
Charge for the year	<u>249,832</u>	<u>2,000,000</u>
Balance at 31 December	<u><u>3,284,053</u></u>	<u><u>3,034,221</u></u>

9. PREPAYMENT AND OTHER RECEIVABLES

Prepayment and other receivables at comprise of the following:

	December 31, <u>2021</u>	December 31, <u>2020</u>
VAT Receivable	5,066,031	6,133,736
Prepaid Insurance	<u>103,445</u>	<u>126,306</u>
	<u><u>5,169,476</u></u>	<u><u>6,260,042</u></u>

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10. INVESTMENT PROPERTIES

The details of the properties as at December 31, 2021 is as follow:

	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	(5,671,423)	(2,028,883)	(7,700,306)	(2,325,283)	1,371,883	(953,400)	140,331,000	140,331,000
Al Ajazzera Compound	Residential	Riyadh	67,602,009	46,987	67,648,996	(1,450,479)	(528,764)	(1,979,243)	--	--	--	65,669,753	69,320,000
Panda Jeddah	Commercial	Jeddah	39,300,000	--	39,300,000	(768,206)	(279,000)	(1,047,206)	--	--	--	38,252,794	39,325,000
Panda Riyadh	Commercial	Riyadh	78,765,000	--	78,765,000	(1,550,040)	(562,950)	(2,112,990)	--	--	--	76,652,010	81,100,000
Public prosecution Building (See10.3)	Commercial	Jeddah	63,386,276	9,304	63,395,580	(3,583,476)	(1,301,750)	(4,885,226)	--	(5,410,354)	(5,410,354)	53,100,000	53,100,000
Al Rawda Business Center (See 10.3)	Commercial	Jeddah	126,503,000	--	126,503,000	(7,378,446)	(2,673,848)	(10,052,294)	(7,853,554)	1,459,848	(6,393,706)	110,057,000	110,057,000
Burj AlHayat (See 10.3)	Commercial	Riyadh	41,260,000	--	41,260,000	(2,169,148)	(787,800)	(2,956,948)	--	(18,903,052)	(18,903,052)	19,400,000	19,400,000
Saudi Fransi Building	Commercial	Dammam	28,519,294	--	28,519,294	(1,092,048)	(447,863)	(1,539,911)	--	--	--	26,979,383	28,085,000
Panda Al rayan	Commercial	Dammam	62,545,580	--	62,545,580	(1,790,773)	(747,863)	(2,538,636)	--	--	--	60,006,944	65,175,000
Alhokair Time	Commercial	Dammam	34,206,942	--	34,206,942	(1,072,417)	(447,863)	(1,520,280)	--	--	--	32,686,662	33,600,000
Ajdan Walk	Commercial	Al Khobar	356,274,715	--	356,274,715	(12,668,123)	(6,357,349)	(19,025,472)	--	--	--	337,249,243	357,000,000
Panda Dammam (10.7)	Commercial	Dammam	--	70,170,958	70,170,958	--	(3,381)	(3,381)	--	(3,882,577)	(3,882,577)	66,285,000	66,285,000
Al Olaya School (10.7)	Commercial	Riyadh	--	63,776,863	63,776,863	--	(2,988)	(2,988)	--	(3,528,875)	(3,528,875)	60,245,000	60,245,000
EXTRA Dammam (10.7)	Commercial	Dammam	--	52,984,181	52,984,181	--	(1,683)	(1,683)	--	(2,932,498)	(2,932,498)	50,050,000	50,050,000
Irqah Plaza (10.7)	Commercial	Riyadh	--	93,955,614	93,955,614	--	(2,790)	(2,790)	--	(5,200,324)	(5,200,324)	88,752,500	88,752,500
AlHamra Plaza (10.7)	Commercial	Riyadh	--	71,346,032	71,346,032	--	(1,770)	(1,770)	--	(3,949,262)	(3,949,262)	67,395,000	67,395,000
Dar Al Baraa School (10.7)	Commercial	Riyadh	--	165,807,140	165,807,140	--	(10,470)	(10,470)	--	(9,171,670)	(9,171,670)	156,625,000	156,625,000
Manahij School (10.7)	Commercial	Riyadh	--	58,457,273	58,457,273	--	(2,355)	(2,355)	--	(3,234,918)	(3,234,918)	55,220,000	55,220,000
Amjaad Qurtuba (10.7)	Commercial	Riyadh	--	122,271,188	122,271,188	--	(5,268)	(5,268)	--	(6,765,920)	(6,765,920)	115,500,000	115,500,000
Work in progress (See 10.6)			7,399,157	6,109,417	13,508,574	--	--	--	--	--	--	13,508,574	--
			<u>1,054,746,679</u>	<u>704,934,957</u>	<u>1,759,681,636</u>	<u>(39,194,579)</u>	<u>(16,194,638)</u>	<u>(55,389,217)</u>	<u>(10,178,837)</u>	<u>(60,147,719)</u>	<u>(70,326,556)</u>	<u>1,633,965,863</u>	<u>1,656,565,500</u>

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10. INVESTMENT PROPERTIES (continued)

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 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>

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10. INVESTMENT PROPERTIES (continued)

10.3 For the year ended December 31, 2021, the Fund recorded an impairment loss amounting to SAR 60.1 million in net basis (December 31, 2020: SAR 3.4 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, 2021.

10.4 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, <u>2021</u>	December 31, <u>2020</u>
Net assets as reported	1,039,710,604	537,948,379
Net appreciation in value based on valuation as at	<u>22,599,637</u>	<u>27,065,737</u>
Net assets at fair value of investment properties	<u>1,062,310,241</u>	565,014,116
Net assets per unit, at cost	8.8486	8.9658
Impact on net assets per unit for the appreciation in value	<u>0.1923</u>	<u>0.4511</u>
Net assets per unit at fair value	<u>9.0409</u>	<u>9.4169</u>

10.5 In accordance with article 35 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. The valuations of the investment properties as at December 31, 2021 were carried out by Value Strat and White Cubes, which are accredited valuers by Saudi Authority for Accredited Valuers (TAQEEM). The fair Value of the investment properties is recorded as the average value between Value Strat and White Cubes.

10.6 Work in progress represents a project of parking lot in Khalidiyah Business Center. The project is expected to be completed in the first quarter of the year 2022. The expected cost to complete is SAR 1,500,000.

10.7 The impairment of the 8 new properties acquired by the fund during the year in connection with the capital increase (Note 18) is due to capitalizing the additional acquisition costs incurred related to Real Estate Transaction Tax and Fund Manager fees.

11. OPERATING SEGMENTS

The fund has a single reporting segment represented by real estate rental services, with their related revenues and balances are domiciled in the kingdom of Saudi Arabia.

SEDCO CAPITAL REIT FUND

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12. DIVIDEND PAYABLE

During the year ended December 31, 2021, Fund declared cash dividends amounting SAR 37.8 million (2020: SAR 33.3 million). During the year ended, the Fund paid an amount of SAR 35.6 million (2020: SAR 35.7 million) to Unitholders and SAR 9.8 million was also distributed subsequently to year end.

13. 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. In addition to transactions disclosed, if any, elsewhere in these financial statements, related party transactions are summarized below:

	<u>Relationship</u>	<u>Nature of transaction</u>	<u>Amount of transaction 2021</u>	Amount of transaction, <u>2020</u>	<u>Balance at 2021</u>	Balance at <u>2020</u>
<u>Due to related parties</u>						
Saudi Economic and Development Securities Company ("Fund Manager")	Fund Manager	Management fees	5,524,303	5,845,879		
		Admin fees	276,215	291,705		
		Shariah advisory	30,000	30,000		
		Financing arrangement fee	--	--		
		Reimbursement of fees paid on behalf of the fund	8,245,603	4,306,012	4,500,000	6,915,085
<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	4,929,123	5,065,219	1,230,602	1,465,270
Fund Board's remuneration	Fund Board	Remuneration	60,000	60,000	--	22,500

The balance due to related parties as at 31 December 2021 is generated from the fees paid to the Fund Manager against the increase in the facilitated bank loan in accordance to signed IMA. Accordingly, the Fund Manager is entitled to fees amounting to SAR 4,500,000.

SEDCO CAPITAL REIT FUND

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14. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables at comprise of the following:

	December 31, <u>2021</u>	December 31, <u>2020</u>
Real estate transaction tax (RETT)*	33,003,625	--
Underwriting costs	2,532,500	--
Maintenance fee payable (Note 12)	1,230,602	1,465,270
Security deposits	831,154	876,654
Custody fee payable	108,857	117,139
Valuation fee payable	113,000	113,000
Tadawul fees payable	500,000	95,000
Audit fee payable	57,500	50,000
Other payable	277,917	28,209
	<u>38,655,155</u>	<u>2,745,272</u>

* The real estate tax is the tax imposed on acquiring the new 8 investment properties in the current year (refer to note 10)

15. DEFERRED REVENUE

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

	December 31, <u>2021</u>	December 31, <u>2020</u>
Balance at the beginning of the year	3,522,464	5,033,571
Rent received during the year	33,414,997	14,482,694
Adjusted against revenue earned	<u>(19,664,430)</u>	<u>(15,993,801)</u>
Balance at the end of the year	<u>17,273,031</u>	<u>3,522,464</u>

16. DERIVATIVE INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

For the year ended 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 17). The maturity date of the instrument are October 15, 2023 and October 16, 2023 respectively. As at December 31, 2021, these derivative instruments have positive fair value.

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16. DERIVATIVE INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS
(continued)

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

	<u>31 December 2021</u>		<u>31 December 2020</u>	
	<u>Positive (Negative) Fair Value</u>	<u>Notional Amount</u>	<u>Negative Fair Value</u>	<u>Notional Amount</u>
Swap 1				
Nominal loan amount	1,066,675	250,000,000	(412,840)	250,000,000
Profit Rate Swap	1.85%	1.43%	0.91%	1.43%
Swap 2				
Nominal loan amount	(214,661)	240,000,000	(890,530)	240,000,000
Profit Rate Swap	1.60%	1.69%	0.91%	1.69%

The fund's realised losses from the swap transaction during the year ended 31 December 2021 with an amount of SAR 2,083,468 (2020: SAR 875,112). Unrealized gain (loss) from the swap transaction for the year ended 31 December 2021 amounts to SAR 852,014 (2020: SAR (1,303,370))

17. FINANCING FACILITY FROM A BANK

During 2018, the Fund entered into a financing facility agreement with a local bank with an approved limit of SAR 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 negotiated a reduced profit rate to six months SAIBOR + 1.45%. while keeping all other terms as per the original financing facility agreement.

During 2021, the Fund increased the financing facility to SAR 1,050 million. As at December 31, 2021, the Fund has an undrawn amount of SAR 425 million.

The fund has booked financing charges based on effective interest method amounting to SAR 12.48 million (2020: SAR 18.49 million).

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

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Non-current liabilities	615,511,202	486,735,553
Current liabilities	4,141,929	1,468,518
	<u>619,653,131</u>	<u>488,204,071</u>

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18. UNITS IN ISSUE

The Fund has issued 60 million units at the price of SAR 10 per unit. During the year the fund initiated a capital increase process in order to acquire 8 investment properties from another fund that is managed by the same fund manager. For this purpose, the fund issued additional 57.5 million units out of which 32.5 million units were allocated to the in-kind subscribers and the rest for cash contributors at the price of SAR 10 per unit.

19. OPERATING EXPENSES AND OTHER EXPENSES

Operating expenses and other expenses comprise of the following:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Operating expenses	7,101,107	7,393,088
Professional fees	3,165,174	1,109,361
Tadawul and Edaa fees (Note 7)	1,001,904	498,785
Custody fees (Note 7)	223,413	235,669
Board fees	60,000	60,000
Other expenses	661,999	705,777
	<u>12,213,597</u>	<u>10,002,680</u>

20. FINANCIAL RISK MANAGEMENT

20.1 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.

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20. FINANCIAL RISK MANAGEMENT (continued)

20.1 Financial risk factors (continued)

(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.

The Fund analyses its commission rate exposure on a regular basis by monitoring commission rate trends and believes that the impact of such changes is not significant to the Fund.

Commission rate sensitivity

As at December 31, 2021, 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 SAR 10.7 million (2020: SAR 5.3 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.

(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:

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20. FINANCIAL RISK MANAGEMENT (continued)

20.1 Financial risk factors (continued)

(b) Credit risk (continued)

Maximum exposure to credit risk at the reporting date:

	December 31, <u>2021</u>	December 31, <u>2020</u>
<u>Assets</u>		
Cash at banks	62,053,842	20,585,698
Rent receivable (Note 8)	30,784,779	18,953,859
	<u>92,838,621</u>	<u>39,539,557</u>

The Company implemented IFRS (9) which measures the probability of default for all trade receivables.

For the measurement of expected credit losses, all trade receivables are grouped together based on the common credit risk characteristics and the aging of these receivables, the ratios of the expected losses are approximately reasonable in respect of trade receivables losses.

The expected loss ratios have been prepared based on the payments / collections of the trade receivables in data of 2 years and historical similar credit losses incurred during such period. The historical losses have been revised to reflect the information from macroeconomic factors and researchers that impacts the tenants' ability to settle receivables.

(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, 2021, the Fund has an unutilized credit facility from bank a amounting to SAR 425 million (December 31, 2020: SAR 110 million).

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20. FINANCIAL RISK MANAGEMENT (continued)**20.1 Financial risk factors (continued)****(c) Liquidity risk (continued)**

Financial liabilities	As at December 31, 2021						As at December 31, 2020					
	On demand	Less than 3 months	Less than 1 year	More than 1 year	Contractual liability	Carrying amount	On demand	Less than 3 months	Less than 1 year	More than 1 year	Contractual liability	Carrying amount
Derivative instruments at fair value through profit or loss	--	--	--	--	--	--	--	--	1,303,370	--	1,303,370	1,303,370
Dividends payable	--	9,750,000	--	--	9,750,000	9,750,000	--	7,500,000	--	--	7,500,000	7,500,000
Due to related parties	--	4,500,000	--	--	4,500,000	4,500,000	--	6,915,085	--	--	6,915,085	6,915,085
Accrued expenses and other payable	--	38,655,155	--	--	38,655,155	38,655,155	--	2,745,272	--	--	2,745,272	2,745,272
Deferred revenue	--	17,273,031	--	--	17,273,031	17,273,031	--	3,522,464	--	--	3,522,464	3,522,464
Financing facility from a Bank	--	--	4,141,929	615,511,202	619,653,131	619,653,131	--	--	1,468,518	486,735,553	488,204,071	488,204,071
Total financial liabilities	--	70,178,186	4,141,929	615,511,202	689,831,317	689,831,317	--	20,682,821	2,771,888	486,735,553	510,190,262	510,190,262

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For the year ended December 31, 2021

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20 FINANCIAL RISK MANAGEMENT (continued)

20.1 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.

20.2 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.

December 31, 2021	Carrying amount FVTPL	Level 1	Fair Value		Total
			Level 2	Level 3	
<i>Financial assets measured at fair value</i>					
Financial derivatives	852,014	--	852,014	--	852,014
	852,014	--	852,014	--	852,014

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20. FINANCIAL RISK MANAGEMENT (continued)

20.2 Fair value estimation (continued)

There were no transfers between level 1 and level 2 during the year 2021.

Financial assets and liabilities that are not measured at fair value:

December 31, 2021	Carrying amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial Assets:					
Cash at banks	62,053,842	--	--	--	--
Rend receivable	27,500,726	--	--	--	--
	<u>89,554,568</u>				
Financial Liabilities:					
Dividends payable	9,750,000	--	--	--	--
Due to related parties	4,500,000	--	--	--	--
Financing facility from a bank	4,141,929	--	--	--	--
	<u>18,391,929</u>				

December 31, 2020	Carrying amount FVTPL	Fair Value			Total
		Level 1	Level 2	Level 3	
<i>Financial liabilities measured at fair value</i>					
Financial derivatives	1,303,370	--	1,303,370	--	1,303,370
	<u>1,303,370</u>		<u>1,303,370</u>		<u>1,303,370</u>

December 31, 2020	Carrying amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial Assets:					
Cash at banks	20,585,698	--	--	--	--
Rend receivable	15,919,638	--	--	--	--
	<u>36,505,336</u>				
Financial Liabilities:					
Dividends payable	7,500,000	--	--	--	--
Due to related parties	6,915,085	--	--	--	--
Financing facility from a bank	1,468,518	--	--	--	--
	<u>15,883,603</u>				

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21. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Following are the new standards and amendments to standards are effective for annual periods beginning on or after January 1, 2021 and earlier application is permitted; however, the Fund has not early adopted them in preparing these financial statements.

Effective date	New standards or amendments
January 1, 2021	Onerous contracts - cost fulfilling a contract (Amendments to IAS 37)
	COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)
	Definition of Accounting Estimates (Amendments to IAS 8)
	Reference to the Conceptual Framework (Amendments to IFRS 3)

The management believes that the above pronouncement has no material impact on the financial statements.

Forthcoming requirements:

Effective date	New standards or amendments
January 1, 2022	Annual Improvements to IFRS Standards 2018-2020
January 1, 2022	Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
January 1, 2022	Classification of liabilities as Current or Non-current (Amendments to IAS1)
January 1, 2023	IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts
January 1, 2023	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
January 1, 2023	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
Available for optional adoption / effective date deferred indefinitely	Sales or Contributions of Assets between an Investor and its Associates or Joint Venture (Amendments to IFRS 10 and IAS 28)

22. LAST VALUATION DAY

The last valuation day of the year was December 31, 2021 (2020: December 31, 2020).

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 24 March 2022, corresponding to 21 Sha'aban 1443H