

SEDCO
CAPITAL



SEDCO Capital REIT

Semi Annual Report
June 2019

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Management Statements

It is our honor to present 2019 semi-annual report of SEDCO Capital REIT to the Unitholders which includes main activities, achievements, operational results and general views with regards to the REIT portfolio along with highlights of the interim financial statement for the period ended 30 June 2019.

SEDCO Capital REIT current portfolio comprises of 11 underlying income generating assets geographically diversified in Eastern province 45%, Jeddah 37% and Riyadh 18%. Furthermore, the portfolio enjoys sectoral diversification by having Entertainment Sector being 37% of the portfolio, 33% office, 20% retail, 6% Residential and 4% Hospitality. The occupancy rate stood at 92% with 67% of the properties being single tenant with long term leases permitting for stability, while 33% of the properties are leased to multi-tenanted with multiple lease agreements providing growth potential. The weighted average lease expiry (WALE) stood at 5.6 year.

The average value of the Fund's property portfolio, as priced by two independent valuers, was estimated at SAR 1,047 million, raised by 1.47% compared to total purchase price. The equity per unit at fair value has slightly decreased and reached SAR 9.9039 compared to SAR 10.0347 in December 2018.

In terms of major contractual lease escalations for the portfolio, there are upcoming contractual lease escalations of 33.3% and 5.9% and 5.3% in 2020 for the properties leased to Banque Saudi Fransi, Burj Hayat and Panda Rayyan respectively which expect to contribute positively in providing sustainable distribution to unit holders.

In terms of dividend distribution, the Fund announced a dividend distribution of SAR 0.330 per unit amounting to SAR 19,800,000 for the period from 1st January 2019 to 30th June 2019. Accordingly, the dividends for the first half of 2019 increased to 6.60% on an annual basis as a result of recent acquisitions* compared to 2018 dividend distribution of 6.1% on annual basis, which indicate an improvement on the target yield of 6.1% per annum.

“ Based on our interest alignment philosophy, we efficiently operate with market conditions striving to reach the targeted performance fee ”

Sherif Selim

Head of International & Regional Real Estate

In line with the Fund's strategy, the Fund manager started enhancing Al Khalidiya Business Centre, by constructing a parking building and additional leasing space for the center at a cost of SAR 16 million: adding value to the property.

In accordance with the Fund's cash management strategy, the Fund has invested the cash available in Shariah-compliant Murabaha resulting in profits of SAR 842,317 during the period from 1 January 2019 to 30 June 2019. Furthermore, the Fund successfully claimed SAR 15.9 million from General Authority of Zakat and Tax (GAZT), which represent part of the Value Added Tax (VAT) paid for the recent acquisitions*. The Fund manager intends to use this amount to rebalance the financing value, which is expected to have a positive impact on the Fund's financial results.

Finally, we would like to thank you for your trust and we remain committed to efficiently manage our properties and proactively address operational risks and capitalize on any growth opportunities that will add value to the Fund's portfolio.

**The recent acquisitions refer to the property of Banque Saudi Fransi, Al Hokair Time, Banda El Rayyan and Ajdan Walk*

Fund Name

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

Fund Factsheet

Fund Size Upon Listing	SAR 600 million
Number of Units Listed	60 million units
Fund Currency	Saudi Riyals (SAR)
Headquarters	Kingdom of Saudi Arabia
Operation Date	1 April 2018
Date of listing the Fund in TADAWUL	1 May 2018
Fund Term	99 (ninety-nine) years following the date of listing
Target Dividend	6.1%
Actual Dividend as of Reporting Date (on an annual basis)	6.6%

Fund Strategy

Fund Objectives and Dividend Policy

Acquire developed and ready to use properties in order to generate regular rental income and distribute at least 90% of the Fund's net profit to the Unitholders throughout the term of the Fund. Dividend will be paid out within 30 business days following the end of June and December of each calendar year, excluding capital gains from the sale of assets which may be reinvested for acquiring assets for the interests of Unitholders.

Assets Targeted by the Fund for Investment

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

- Investing in developed and ready to use properties in order to generate regular rental income.

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

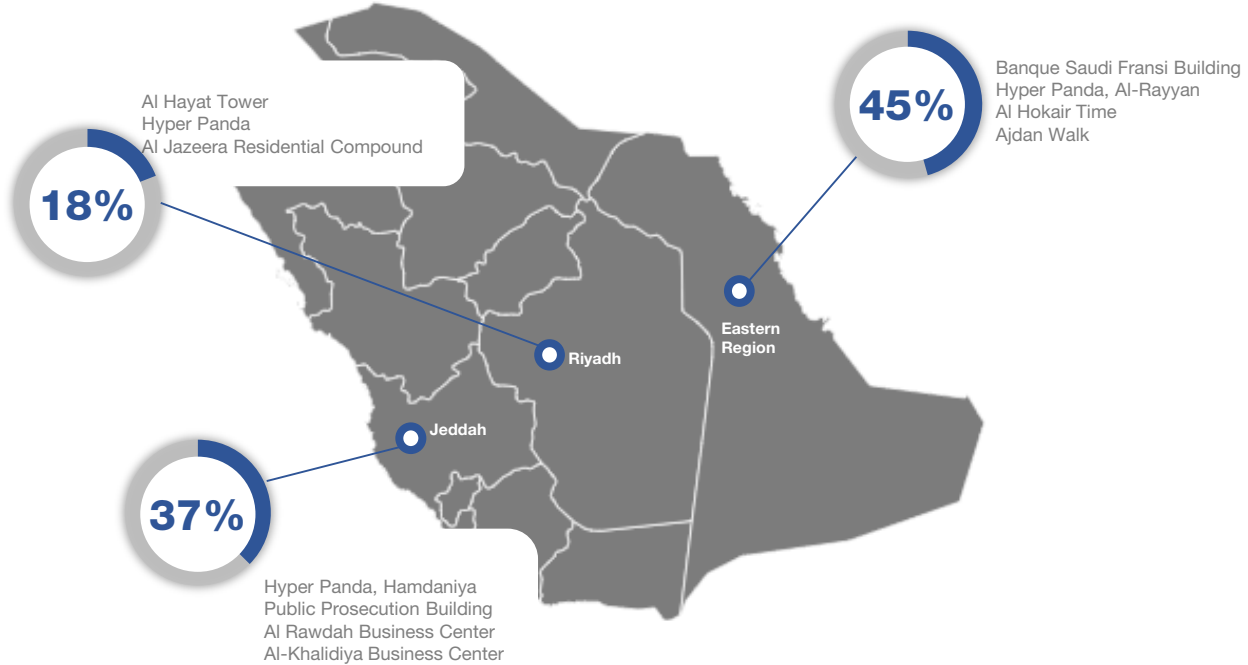
Fund Updates

- The occupancy rate of the portfolio stood at 92% which represents a decline by 2% versus 94% in 31 December 2018.
- Whitecubes and ValuStart valued SEDCO Capital REIT properties at 30 June 2019.
- Fund's cash balance amounted to SAR 36,814,408 as of 30 June 2019, including rent received. Part of the balance will be used for dividend distribution during the year 2019.
- The Fund has invested the cash available in Shariah-compliant Murabaha resulting in profits of SAR 842,317 during the period from 1 January 2019 to 30 June 2019.
- In line with the Fund's strategy, the Fund manager started enhancing Al Khalidiya Business Centre, by constructing a parking building and additional leasing space for the Center at a cost of SAR 16 million: adding value to the property.

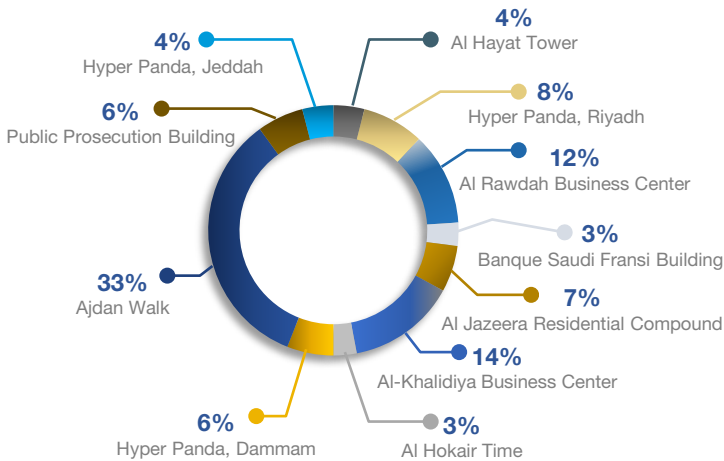
Fund Assets

Geographical Diversity

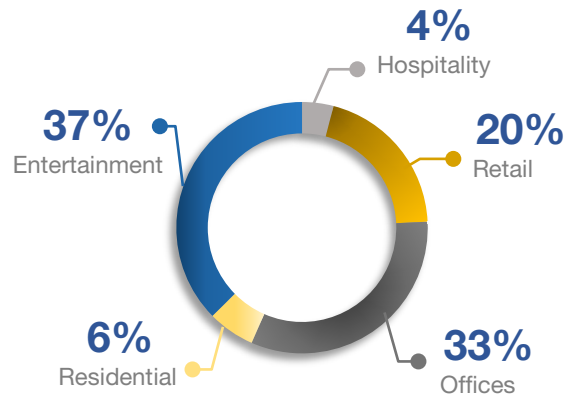
The Fund's assets diversified across Riyadh 18%, Jeddah 37% and Eastern Province 45%.



Assets Allocation



Sectoral Diversification of the Portfolio



Fund Assets - Riyadh

Al Hayat Tower Apartments Hotel



Description	Hotel apartments located on Ka'ab Bin Malik Street, Al Maathar District, Riyadh
Sector	Hospitality
Land Area/m²	1,495
Building Area/m²	6,574
Occupancy Rate	100%
Annual Income	SAR 3,400,000
Tenant	Dar Al Masarat Arabia Company Limited
Weighted Average Lease Expiry	5.5 years

Hyper Panda - Riyadh




Description	Hypermarket in Riyadh - Ishbilliai District Branch
Sector	Retail
Land Area/m²	23,604
Building Area/m²	10,784
Occupancy Rate	100%
Annual Income	SAR 5,822,670
Tenant	Al Azizia Panda United Company
Weighted Average Lease Expiry	9.0 years


Al Jazeera Residential Compound





Description	Residential compound located in the center of Riyadh on Mashaja Bin Saud Street, Sulaymaniyah District
Sector	Residential Sector
Land Area/m²	20,758
Building Area/m²	12,696
Occupancy Rate	93%
Annual Income	SAR 6,521,000
Tenant	Multi-Tenants
Weighted Average Lease Expiry	0.4 years

Fund Assets - Jeddah


Public Prosecution Building		Description	The Public Prosecution Building, located on the Rahmaniya Road, Al-Rayyan District, Jeddah
		Sector	Office sector
		Land Area/m²	4,767
		Building Area/m²	19,342.1
		Occupancy Rate	100%
		Annual Income	SAR 5,500,000
		Tenant	Saudi Commission for Investigation and Prosecution (Public Prosecution)
		Weighted Average Lease Expiry	2.7 years (according to the lease terms, the contract is under renewal for a similar period)


Al-Khalidiya Business Center		Description	A commercial/office center located on Prince Sultan Street, Al Khalidiyah District, Jeddah
		Sector	Office sector
		Land Area/m²	7,903
		Building Area/m²	24,876.51
		Occupancy Rate	74%
		Annual Income	SAR 9,888,920
		Tenant	Multi-Tenants
		Weighted Average Lease Expiry	2.6 years


Hyper Panda - Jeddah		Description	Hypermarket is located in Hamdaniya Street, Al-Hamdaniya District, Jeddah
		Sector	Retail
		Land Area/m²	13,686
		Building area/m²	5,858
		Occupancy Rate	100%
		Annual Income	SAR 2,845,151
		Tenant	Al Azizia Panda United Company
		Weighted Average Lease Expiry	8.7 years


Al Rawdah Business Center		Description	A commercial/office center located in Prince Saud Al Faisal Street, Al Rawdah District
		Sector	Office sector
		Land Area/m²	2,463
		Building Area/m²	17,526.74
		Occupancy Rate	69%
		Annual Income	SAR 7,303,608
		Tenant	Multi-Tenants
		Weighted Average Lease Expiry	1.2 years

Fund Assets - Dammam

Banque Saudi Fransi Building		Description	A building leased Banque Saudi Fransi located on Imam Ali Bin Abi Talib, Al Rayyan District, Dammam
	Sector	Retail Sector	
	Land Area/m²	5,191	
	Building Area/m²	879	
	Occupancy Rate	100%	
	Annual Income	SAR 1,500,000	
	Tenant	Banque Saudi Fransi	
	Weighted Average Lease Expiry	6.4 years	

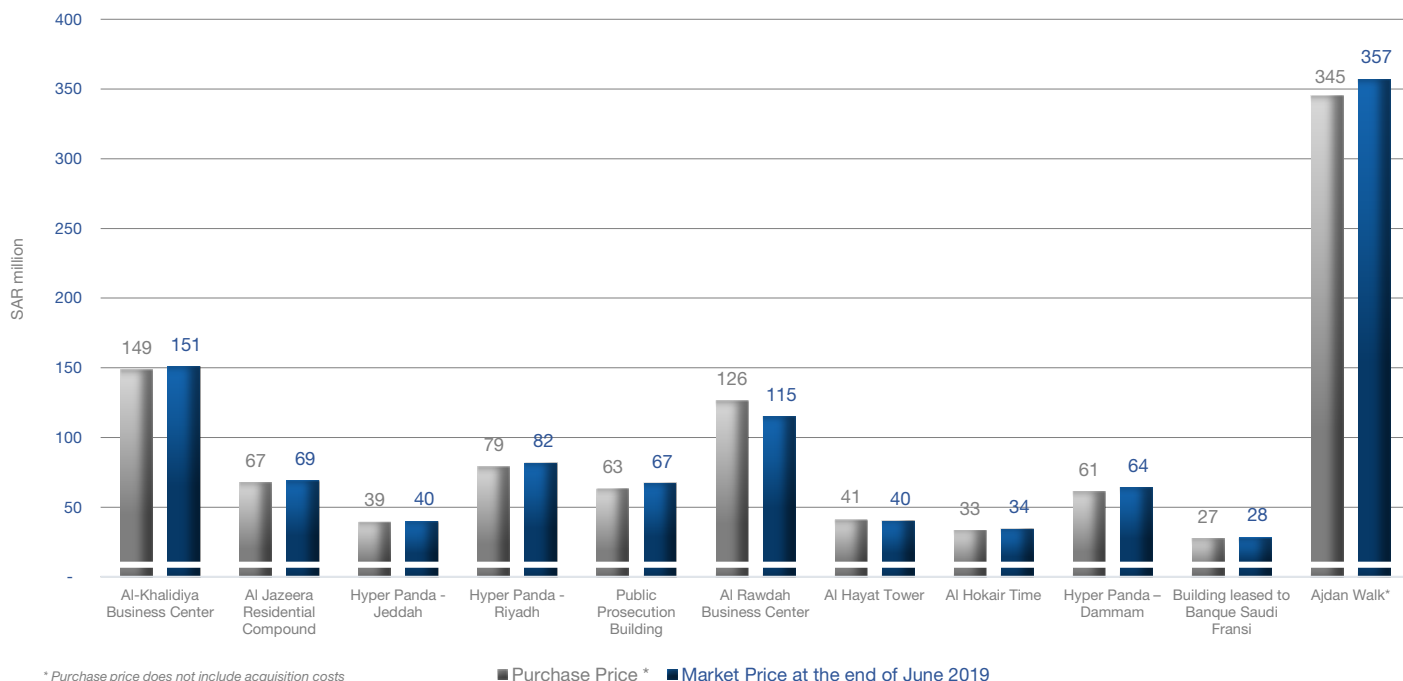
Hyper Panda - Dammam		Description	Panda Hypermarket is located on Imam Ali Bin Abi Talib, Al Rayyan District, Dammam
	Sector	Retail	
	Land Area/m²	18,145	
	Building Area/m²	9,800	
	Occupancy Rate	100%	
	Annual Income	SAR 4,966,761	
	Tenant	Al Azizia Panda United Company	
	Weighted Average Lease Expiry	5.6 years	

Al Hokair Time Center		Description	Al Hokair Time is located on the east coast of Dammam
	Sector	Entertainment sector	
	Land Area/m²	5,156	
	Building Area/m²	3,326	
	Occupancy Rate	100%	
	Annual Income	SAR 2,200,000.	
	Tenant	Abdulmohsen Al-Hokair Group for Tourism and Development Company	
	Weighted Average Lease Expiry	17.9 years	

Ajdan Walk		Description	Ajdan Walk is located on Prince Turki Street in Al Khobar
	Sector	Entertainment / Office sector	
	Land Area/m²	16,966	
	Building Area/m²	32,212	
	Occupancy Rate	100%	
	Annual Income	SAR 25,000,000	
	Tenant	AlOula Real Estate Development Company	
	Weighted Average Lease Expiry	9.6 years	

Fair value vs. Purchase Price

The fair value of the Fund's assets at the end of June 2019 raised by 1.47% to reach SAR 1,047 million, based on the average valuation of two independent accredited real estate valuers, ValuStrat and Whitecubes, compared to the total purchase cost of assets of SAR 1,031 million excluding transaction costs.

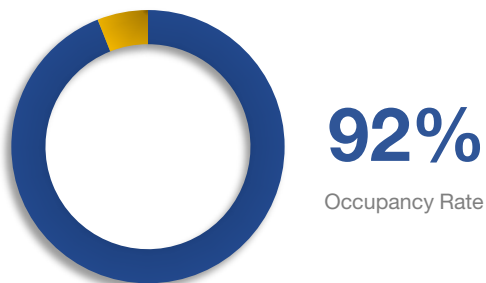


Summary of leased and non-leased Assets, Occupancy Rate, and Weighted Average Lease Expiry (WALE)

Property	Leased/non-leased	Occupancy	WALE
Al Hayat Hotel Apartments Tower	Leased	100%	5.5 years
Hyper Panda - Riyadh	Leased	100%	9.0 years
Al Jazeera Residential Compound	Leased	93%	0.4 years
Public Prosecution Building	Leased	100%	2.7 years
Al-Khalidiya Business Center	Leased	74%	2.6 years
Hyper Panda - Jeddah	Leased	100%	8.7 years
Al Rawdah Business Center	Leased	69%	1.2 years
Building leased to Banque Saudi Fransi	Leased	100%	6.4 years
Hyper Panda - Dammam	Leased	100%	5.6 years
Al Hokair Time	Leased	100%	17.9 years
Ajdan Walk	Leased	100%	9.6 years
All Assets are leased and income generating		92%	5.6 years

Portfolio Occupancy Rate

The occupancy rate of the portfolio stood at 92% which represent a decline of 2% compared to the occupancy rate as of 31 December 2018.

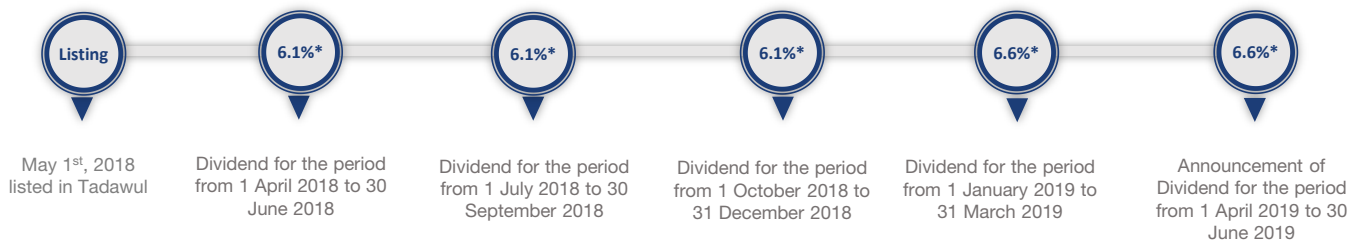


Dividend Distributions

The Fund Manager intends to distribute semi-annual cash dividends to investors of no less than 90% of the Fund's net profit within 30 calendar days following the end of June and December of each calendar year, excluding the capital gains arising from the sale of assets which may be reinvested in additional assets for the interests of Unitholders.

Cash dividends increased during 2019 to reach 6.6% on annual basis compared to 6.1% on annual basis in 2018.

Since listing, the Fund has distributed the following CoC dividend:



Transactions with related parties

The Fund Manager has transactions with related parties summarized as follows:

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

Rents with related parties represent 3.28% of total fund revenues whereas maintenance contracts account for 8.36% of total fund expenses. The Fund Manager confirms that all these transactions and contracts have been based on the principle of equality among all customers and without any preference.

Related parties are:

- Arabian Entertainment Co., Ltd
- Al - Mahmal Facilities Services Company
- Tazweid Talent Co.

Financial performance

Fund Size	As of 31 Dec 2018	As of 30 Jun 2019
Net market value of the Fund's assets at the end of the financial year (Fair Value)	602,081,783	594,236,428
Net market value of the Fund's assets per unit at the end of the financial year (Fair Value)	10.0347	9.9039
Net market value of the Fund's assets at the end of the financial year (Book Value)	578,983,917	569,102,209
Net market value of the Fund's assets per unit at the end of the financial year (Book Value)	9.6497	9.4850
Highest net asset value per unit for each financial year (Fair Value)	10.0347	9.9039
Lowest net asset value per unit for each financial year (Fair Value)	9.8281	9.9039
Income distribution per unit	0.4575	0.33
Percentage of expenses borne by the Fund	3.54%	4.82%
Net Income	6,433,917	9,918,292
Distribution Yield (based on market traded price)	5.72%	4.14%

Services, fees and commissions charged to the Fund throughout the year

Indicator	As of 31 December 2018	As of 30 June 2019
Operating expenses	6,132,619	3,462,192
Management fees	4,464,019	3,010,409
Finance fees	1,379,771	13,786,670
Professional fees	762,607	164,335
Other costs	635,567	176,498
Depreciation and amortization	7,948,748	8,071,728
Total expenses	21,323,331	28,671,832

Performance record

Period	Total return
Since Inception	6.30% (on an annual basis)
One Year	6.35% (on an annual basis)
Three Years	N/A
Five Years	N/A

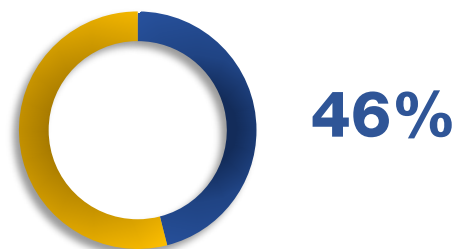
	2018	2019
Total Return	6.1% (on an annual basis)	6.60% (on an annual basis)

Special commissions received by the Fund Manager

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

Leverage

An amount of SAR 504.9 million* has been used to finance the acquisition of properties located in Dammam and Al Khobar, Banque Saudi Fransi Building, Al Hokair Time, Hyper Panda and Ajdan Walk.



* For Financial Statement and IFRS reporting requirements, the financing amount equates SAR 499.01 million and the leverage ratio equates 45%.

The difference is resulted from deducting loan transaction costs of approximate SAR 7.5 million and adding accrued loan fees of approximate SAR 0.9 million.

Summary of Fund's performance

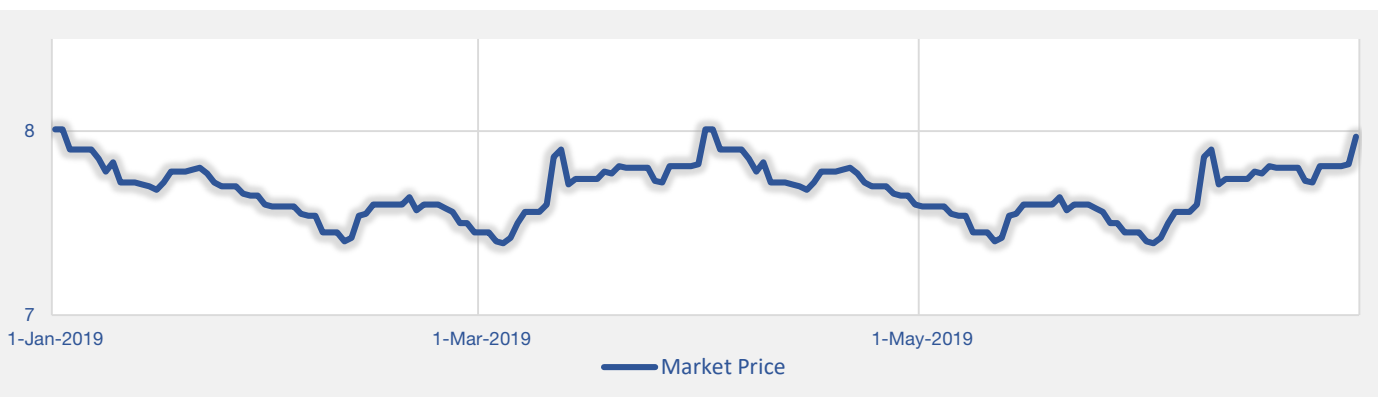
The fund has exceeded its target objective of distributing 6.1% on annual basis by distributing 6.6% on an annual basis for the period of 1 January 2019 to 30 June 2019.

Stock

During the period of 1 January 2019 and 30 June 2019, the stock witnessed different levels of volatility, recording its lowest trading price at SAR 7.00 and highest at SAR 8.01 and ending the period at SAR 7.97.

Changes to the Fund's documents during the period

- Updated the "Valuating the Fund's Properties" section within the Terms & Conditions.
- Three additional valuers have been added.



Topics discussed and resolutions issued by the fund board

DATE	TOPICS	RESOLUTIONS
15 January 2019	Alkhaldiyah Business Center proposal	<ul style="list-style-type: none"> • Approve implementing the value-add measures undertaking in KBC with a total budget of SAR 16 million. That includes: <ul style="list-style-type: none"> ○ execute a centralized gas system ○ Appoint the contractors ○ Lease the adjacent land and utilize as a temporary parking lot for KBC tenants
20 March 2019	<ul style="list-style-type: none"> • Draft of Audited Financial Statements 	<ul style="list-style-type: none"> • The Fund's Board of Directors approved the draft of the audited financial statements prepared by an external auditor for the period from 1 April 2018 to 31 December 2018.
26 March 2019	<ul style="list-style-type: none"> • Dividend Distribution 	<ul style="list-style-type: none"> • The Fund's Board of Directors approved a dividend distribution for the first quarter ended 31 March 2019.
2 April 2019	<ul style="list-style-type: none"> • Mortgaging the Title Deeds 	<ul style="list-style-type: none"> • Approve hiring an agent to handle mortgaging the title deeds owned by the fund to Al Rajhi Bank.
16 May 2019	<ul style="list-style-type: none"> • Annual Fund Board Report • Signing the Audited Financial Statements 	<ul style="list-style-type: none"> • The Fund's Board of Directors approved the annual fund board report. • Mr. Samer Abu Aker signs the end of year financials as an authorized member on behalf of the Fund Board of Directors
24 June 2019	<ul style="list-style-type: none"> • Dividend Distribution 	<ul style="list-style-type: none"> • The Fund's Board of Directors approved a dividend distribution for the second quarter ended 30 June 2019.

Real Estate Market in Riyadh

Hospitality Industry

Hotel occupancy rates in Riyadh registered 59% in the year-to-May 2019 versus 58% in the year-to-May 2018. Meanwhile, average daily rates (ADR's) fell significantly to SAR 608 recorded substantial declines of 10% over the same period.

The total number of hotel rooms in Riyadh increased to 14,350 rooms by the end of Q2 2019, with the addition of Shaza Riyadh Hotel Residence (225 keys) in Q2 2019, the Radisson Blu Hotel (66 rooms), Marriott Hotel (80 rooms) and Cristal Amaken Hotel (268 rooms) added to the supply in Q1 2019.

Further growth in the branded serviced apartment segment is expected, with several properties due to hand over in 2019 including Hilton Riyadh King Saud University Residence and Mercure Al Anoud by Princes Al Anoud Foundation.

Retail sector

Retail rents in Riyadh registered mixed performance over Q2 2019 as average rents in regional malls and community centers declined 6% and 5% respectively in Q2 2019 versus Q2 2018, rents in high quality super regional malls remained stable over the same period. This is particularly the case in those malls where owners have successfully managed to introduce new concepts such as entertainment options and niche F&B outlets. Meanwhile, the decline in rents in regional and community malls can be attributed to tenants moving out of older centers and into higher quality malls. As such, vacancy rates increased in Q2 2019 to register 14%.

A total of 157,630 sq.m of GLA was delivered in Q2 2019, keeping the total retail stock at 2.3 million sq.m. An additional 277,100 sq.m of retail space is currently under construction and expected to handover at end of 2019.

In the face of a strong supply pipeline, developers are diversifying their offerings by bringing in more entertainment outlets, local fashion and unique homegrown F&B concepts. It is expected that developers will offer a more digital experience to their customers.

Riyadh retail sector is expected to develop in line with the growth of the city's workforce, which has a strong purchasing power. To attract this consumer base, new shopping malls are expected to offer more entertainment and F&B outlets, adopt unique designs and interactive technologies, and expand their tenant mix to global brands.

Residential sector

2019 witnessed the announcement of a USD 23 billion (SAR 86 billion) project to revamp public spaces in Riyadh, to improve the quality of life and promote urban development. King Salman Park incorporates green spaces, and recreational and sports areas among other features. In the long-run, along with efforts to boost home ownership, this is expected to increase the demand for residential units in Riyadh.

Residential sale prices and rental rates continued to register declines on an annual basis. Sale prices in Q2 2019 for apartment units and villas dropped 5% Y-o-Y while rents dropped 1%. The decline is signaling the market could be headed towards the bottom of its cycle. Despite the increase in upcoming supply, it is expected that Riyadh's residential market to stabilize over the next 12 months.

Government efforts to activate the supply of residential units and stimulate demand, through imposing the white land tax and introducing housing schemes, are expected to drive growth in the residential market and lead to a possible correction in performance.

A total of 7,600 residential units were delivered in Q2 2019, increasing the total stock to 1.3 million units. Over 50,000 units are expected to handover at the end of next year 2020, with the majority made up of high-quality apartment units and townhouses that cater to the younger demographics. This includes smaller units with a variety of layout plans, integrated within mixed-use developments that offer developed amenities and retail.

Real Estate Market in Dammam

Entertainment sector

Saudi Entertainment Ventures (SEVEN), a subsidiary of the Public Investment Fund, (PIF) announces in April 2019 the launch of its largest entertainment projects, including its inaugural amusement park in half moon, to be a new infrastructure for the entertainment sector in Eastern Province, which will mark as the first leisure destination in the Gulf due to its strategic geographical location, and will cover an area of 1 million sq.m.

The entertainment projects announced by SEVEN include six movie theatres and three new entertainment destinations in the Eastern Province in Dammam, Khobar and Al Ahsa. The project is expected to be completed by 2020.

The "Sharqiyah Season 2019", which was held under the theme of "Eastern Culture and Energy" during the period from March 14 to 30 in this year was characterized by a variety of activities covering culture, education and sports. The Festival succeed in satisfying the tastes of all age groups in an effort to develop the entertainment and economic sector in Eastern Province. The Festival included many international concerts held in large theaters, performed by international artists from several countries.

Office sector

The average rents in office spaces in Dammam dropped 10% in H1 2019 to reach SAR 901. However, Grade A spaces with high-quality finishing continue to perform better than Grade B spaces which recorded larger declines in average rents. Meanwhile, there was no real improvement in the rate of office take-up during the first half of 2019 and as such, the vacancy rate remained stable at 30% over the same period.

H1 2019 witnessed an additional 19,450 sq.m GLA of office space entering the market, bringing the total office inventory in DMA to approximately 890,000 sq.m GLA. Among the deliveries were Al Juaib Administrative building on Dhahran-Jubail Highway, as well as Al Khafra Tower located in the central area on King Fahd Highway in Dammam.

With the delivery of over 60,000 sq.m of office GLA over the next two years, it is expected that rents to remain under pressure. This is particularly true as the DMA continues to rely on the hydrocarbon sector. However on the long run, and on the back of initiatives and announcements aimed at diversifying the eastern province economy, such as the King Salman Energy Park (SPARK), we expect corporate demand to pick up, reflecting positively on office rents.

Retail sector

Dammam retail sector experienced further rental declines across the regional and community centers. Meanwhile, rents in super regional malls saw an increase of 8% in H1 2019 versus H1 2018, as mall owners were able to offer differentiated retail concepts and experiences to attract and retain tenants. Overall vacancy rates continued to increase over the past 12 months.

H1 2019 witnessed the completion of a small number of retail projects, adding approximately 20,000 sq.m GLA to the supply pipeline. These projects include Villaggio, Al Sadeen Commercial Center Phase 1, and Al-Falak. These additions kept the total retail supply in Dammam at 1.1 million sq.m at the end of H1 2019.

Further declines expected in rental rates on the back of additional supply. long-term view for Dammam retail market remain positive. The sector is set to benefit from the government initiatives to boost the population's spending, particularly on entertainment.

Real Estate Market in Jeddah

Office sector

The average rent of commercial offices in Jeddah declined by 15% in Q2 2019 on Y-o-Y basis. Average Grade A rents dropped 17% to reach SAR 1,030 per sq.m per annum, while Average Grade B rents dropped 12% to average SAR 750 per sq.m per annum with owners adjusting rents in line with market levels.

Vacancies in Q2 2019 decreased 200 basis points to reach 20% Y-o-Y. It is expected that rents will decline in the next 12 months and that vacancy rates will rise due to additional supply and competition.

As a large young Saudi population enters the workforce, demand is also expected to shift to smaller, collaborative, and flexible office spaces which in turn will reduce corporates' capital expenditures.

Retail sector

Q1 2019 witnessed the opening of Jeddah's first cinema, operated by Vox Cinemas, within Red Sea Mall's second Expansion. Q2 2019 saw the launch of the Kingdom's first arthouse "Cinema El Housh" in Jeddah's historic district Al Balad.

Average retail rents in Jeddah saw mixed performance in Q2 2019. While rents in regional malls decreased by 3% on an annual basis, rents in super regional centers remained stable over the same period. As landlords continued to offer yearly leasing incentives to retain tenants, market wide vacancies decreased marginally to reach 10% Y-o-Y.

Vacancy rates in Q2 2019 remained relatively stable at 10% on Y-o-Y compared to 11% in Q1 2018 as tenants continued to provide incentives to retain tenants and maintain good occupancy rates.

Pressure is also likely to mount from the growth of e-commerce in Saudi Arabia. According to data from Saudi Arabia's Communications and Information Technology Commission (CITC), the percentage of online users who engaged in online shopping in 2018 increased to 50%, up from 48% in 2017 and 37% in 2016. This is expected to result in mall operators rethinking their layouts to make room for entertainment outlets and offer more international F&B and fashion concepts that cater to the shifting tastes of Jeddah's young demographic.

From a Macro Perspective

The Saudi economy is undergoing positive and aspiring changes, making it an attractive investment option for domestic and foreign investors. The government has been creating opportunities in multiple sectors, promoting transparency, and implementing pro-business regulations. Its sincere efforts have made it clear the Kingdom is open for business and wants global investors to be a part of a multibillion-dollar transformation.

The Kingdom has climbed the rankings of international competitiveness and ease of doing business to the 26th position, a jump of 13 places. Foreign direct investment (FDI) inflows increased 127% in 2018, and the number of companies entering Saudi Arabia rose 70% year-on-year in the first quarter of 2019.

Saudi Arabia has delivered 45% of more than 500 planned reforms, including introducing 100% foreign ownership rights, improving legal infrastructure, and offering protection for shareholders. Being the only G20 member from the MENA region and with an economy worth more than \$782 billion in 2018, Saudi Arabia offers excellent investment choices for global investors. The Kingdom is organizing and participating in global investor forums to highlight its efforts to attract investments in privatization of large parts of the state-run economy and mega-projects that are underway such as NEOM city, Al-Qiddiya, the Red Sea Resort, and the world-class wellness resort Amaala.

Saudi economic reforms have started to yield positive results. The non-oil economy is picking up, along with increased female participation in the workforce and higher employment. The successful implementation of value-added tax has led to growth in non-oil revenues. Reforms in energy pricing have optimized per capita consumption of gasoline and electricity. In addition, measures have been taken for the low- and mid-income groups in order to compensate against any losses due to reforms.

Furthermore, the challenges are also increasing due to the rise in government spending to support growth given volatility in oil prices. Fiscal consolidation and job creation also need to be addressed. Moreover, to become a diversified, productive, and competitive economy, reforms are required to make Saudi nationals more competitive for private sector jobs, attract FDI, and increase the availability of capital for the youth and growing companies.

From a Real Estate Perspective

The government continues undertaking measures to revive the KSA real estate sector and diversify the economy. The growth in the real estate finance sector is maturing at a higher pace to achieve Vision 2030 strategy, which aims to increase home ownership rates to 60% by 2020 and 70% by 2030.

The Saudi Real Estate Refinance Company (SRC), owned by the Public Investment Fund (PIF), plans to issue up to \$1 billion worth of sukuk in 2019. SRC had already spent SAR1.2 billion on mortgages from finance companies and adding liquidity to these firms. Finance market reached SAR5.6 billion at Q1 2019 and close to 12,800 citizens received loans, and 85% were subsidized.

Statistics from the Saudi Arabian Monetary Agency (SAMA) shows an annual acceleration in real estate loans in Q2 2019 versus Q2 2018. This indicates financial institutions have been allocating an increasing share of their loans to housing and real estate. Currently the private sector is financing up to 100% of housing sector needs, up from 35% previously. Banks provide 93% of real estate financing, while financing firms cover the remaining.

In June, KSA launched the new special residency scheme, in line with global green card systems, aimed at attracting high-skilled expats. The residencies would allow foreign expats free movement, the ability to own properties, and to do business in the Kingdom. The scheme comprises two types of residencies: a permanent one for USD \$213,321 and a one-year, yet renewable residency for USD 26,665. In the near to medium term, this would help drive demand in a subdued property market.

An ambitious program, National Industrial Development and Logistics Program (NIDLP) is expected to increase private sector investments. NIDLP would be the key to reviving the job market. The establishment of real estate investment traded funds (REITs) and other government actions have increased confidence among market participants and created new opportunities in the market; thus, various investors and developers have announced new projects, along with expansions in existing projects.

Since the beginning of 2019, the Saudi Stock Exchange has witnessed increasing foreign cash flows after the beginning of the Saudi Stock Exchange inclusion tranches in the emerging markets indices (FTSE EPRA/Nareit Emerging Index). The number of qualified foreign investors increased by 163.7% to become 1,195 investors as of 20/06/2019, after they were 453 investors at the beginning of the current year. Moreover, the ownership percentage of foreign investors in the Saudi Capital Market has reached 7% as of 20/06/2019, compared to 4.7% at the beginning of this year.



SEDCO Capital Market View

The Saudi real estate sector is set for a major boost, helped by large-scale projects such as NEOM, Rou'a Al-Madinah, Rou'a Al-Haram, Amala, the Red Sea project, Qiddiya and notable government reforms to increase private participation. Long-term prospects for Kingdom's real estate sector remain optimistic on efforts to stimulate the market.

Although the office sector continued to witness weak performance due to limited corporate activity, our outlook remains optimistic and we expect to see more suitable work spaces based on smart technologies and flexible office space to accommodate the requirement of all companies with different sizes.

Government initiatives to support entrepreneurs and small/medium enterprises through "Monsha'at" are expected to increase demand for office space in the medium term.

In terms of residential sector, the regulatory-front initiatives like large housing schemes, white land tax, residential loan and public-private partnership (PPP) reflect the positive intent of the government to revive Real Estate sector. The establishment of "Ejar" system has efficiently regulate and organize real estate leasing. However, we expect rents and sale prices will likely to remain under pressure with probability that the rate of decline will slow down due to the government initiatives of providing smaller units at affordable prices, which will increase demand for residential properties.



SEDCO Capital long-term view remains positive for the hotel sector thanks to the government for its continued efforts to develop the entertainment sector. The issuance of tourist visas will likely increase the number of tourists and therefore increase the demand for hotel units.

We expect retail sector will witness decent growth in the coming years, driven by the rising urbanization trend, subdued demographics, and westernized consumption patterns. The government's focus on developing the entertainment and tourism sectors might transform Saudi cities into global retail destinations which will drive demand for retail space equipped with advanced entertainment facilities.

Fund Manager

Saudi Economic and Development Securities Company (SEDCO Capital)
South Tower - 2nd Floor
Red Sea Mall
Between Gates 7& 8
P.O. Box 13396 Jeddah, 21493
Kingdom of Saudi Arabia
Tel: +966 12 690 6555
Fax: +966 12 690 6599
Website: www.sedcocapital.com
E-Mail: info@sedcocapital.com



Saudi Economic and Development Securities Company (SEDCO Capital) is a Saudi closed joint stock company registered under Commercial Registration No. 4030194994 and licensed as an "Authorized Person" under CMA License No. 11157-37 dated 14/04/04/23 H M) to manage, advise, arrange, deal and provide custody services with respect to the financial securities business. SEDCO Capital provides its regional and international clients, as well as high net worth individuals, with a range of financial services and solutions including advisory, arrangement, custody, dealing, and asset management.

Custodian

AL INMA INVESTMENT COMPANY
Burj Al Anoud 2, Level 20
King Fahad Road, Olaya
P.O Box: 66333 ,Riyadh 11576
Kingdom of Saudi Arabia



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

Responsibilities of Custodian:

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

Auditor

KPMG Al Fozan & Partners
KPMG Building
Salahudeen Al Ayoubi Street
P.O Box 92876 Riyadh 11663
Kingdom of Saudi Arabia



Statement of Auditor's Opinion: "Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2019 condensed interim financial statements of SEDCO Capital REIT Fund are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia."

Financial Statements

For the period from 1 January 2019 to 30 June 2019

SEDCO CAPITAL REIT FUND
(Managed by Sedco Capital Company)

**CONDENSED INTERIM
FINANCIAL STATEMENTS (Unaudited)**
For the six months period ended June 30, 2019
with
REVIEW REPORT TO THE UNITHOLDERS



KPMG Al Fozan & Partners
Certified Public Accountants
Zahran Business Centre, 9th Floor
Prince Sultan Street
PO Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

Telephone +966 12 698 9595
Fax +966 12 698 9494
Internet www.kpmg.com.sa

License No. 46/11/323 issued 11/3/1992

Independent auditor's report on review of condensed interim financial statements

To the Unitholders of SEDCO Capital REIT Fund

Introduction

We have reviewed the accompanying 30 June 2019 condensed interim financial statements of SEDCO Capital REIT Fund (the "Fund") managed by SEDCO Capital (the "Fund Manager") which comprises:

- the condensed statement of financial position as at 30 June 2019;
- the condensed statement of comprehensive income for the six months period ended 30 June 2019;
- the condensed statement of changes in net assets (equity) attributable to unitholders for the six months period ended 30 June 2019;
- the condensed statement of cash flows for the six months period ended 30 June 2019; and
- the notes to the condensed interim financial statements.

The Fund Manager is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2019 condensed interim financial statements of SEDCO Capital REIT Fund are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382

Jeddah, 6 Dhul Hijjah 1440H
Corresponding to 7 August 2019



SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

CONDENSED INTERIM STATEMENT FINANCIAL POSITION (Unaudited)

As at June 30, 2019

Expressed in Saudi Arabian Riyals

	<i>Notes</i>	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents		36,814,408	111,955,644
Financial assets at amortised cost		90,076,208	--
Rent receivable	8	13,048,234	15,219,300
Prepayments and other receivables		6,830,966	22,557,940
Total current assets		146,769,816	149,732,884
Non-current assets			
Investment properties	9	1,021,457,563	1,028,748,945
Total assets		1,168,227,379	1,178,481,829
<u>LIABILITIES</u>			
Current Liabilities			
Payable for the acquisition of investment property	9	69,000,000	69,000,000
Dividends payable	10	9,900,000	9,150,000
Due to related parties	11	3,498,836	17,016,343
Accrued expenses and other payable	12	2,341,753	3,326,670
Deferred revenue	13	15,303,723	2,664,013
Financing facility from a Bank	14	27,292,880	22,178,566
Total current liabilities		127,337,192	123,335,592
Non-current liabilities			
Financing facility from a Bank	14	471,787,978	476,162,320
Total liabilities		599,125,170	599,497,912
Net asset (equity) attributable to unitholders		569,102,209	578,983,917
Units in issue (number)	15	60,000,000	60,000,000
Net asset (equity) per unit (SAR)		9.4850	9.6497



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

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
For the six months period ended June 30, 2019
Expressed in Saudi Arabian Riyals

	<i>Notes</i>	30 June <u>2019</u>	For the period from April 1, 2018 to June 30, <u>2018</u>
Rental income		37,747,807	11,357,525
Murabaha income		<u>842,317</u>	<u>--</u>
		38,590,124	11,357,525
EXPENSES			
Depreciation		8,071,728	2,086,853
Management, administrative and shariah fee	7	3,190,929	1,582,500
Operating and other expenses	16	3,622,505	2,464,514
Impairment on investment properties	9	--	22,512,147
Financing fee and charges		<u>13,786,670</u>	<u>1,638</u>
Total expenses		28,671,832	28,647,652
Net profit / (loss) for the period		<u>9,918,292</u>	<u>(17,290,127)</u>
Other comprehensive income / (loss) for the period		<u>--</u>	<u>--</u>
Total comprehensive income for the period		<u>9,918,292</u>	<u>(17,290,127)</u>



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

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

**CONDENSED INTERIM STATEMENT OF CHANGES IN NET ASSET (EQUITY)
ATTRIBUTABLE TO UNITHOLDERS (Unaudited)**

For the six months period ended 30 June 2019

Expressed in Saudi Arabian Riyals

Net assets (equity) attributable to Unitholders at the beginning of the period	--
Total comprehensive loss for the period as at 30 June 2019	(17,290,127)
Increase in Net asset (equity) from unit transactions during the period	
Proceeds from initial subscription of units (See note 15)	600,000,000
Net asset (equity) attributable to unitholders as at 30 June 2018	<u>582,709,873</u>
Net asset (equity) attributable to unitholders as at January 1, 2019	578,983,917
Total comprehensive income for the period	9,918,292
Dividends	(19,800,000)
Net asset (equity) attributable to unitholders as at June 30, 2019	<u>569,102,209</u>



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

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

CONDENSED INTERIM STATEMENT OF CASH FLOWS (Unaudited)
For the six month period ended 30 June 2019
Expressed in Saudi Arabian Riyals

	June 30, 2019	For the period from April 1, 2018 to June 30, 2018
Net profit / (loss) for the period	9,918,292	(17,290,127)
Cash flow from operating activities		
<i>Adjustment for:</i>		
Depreciation	8,071,728	2,086,853
Impairment	--	22,512,147
	<u>17,990,020</u>	<u>7,308,873</u>
Net changes in operating assets and liabilities:		
Rent receivable	2,171,066	(11,056,033)
Financial assets at amortised cost	(90,076,208)	--
Prepayments and other receivables	15,726,974	(928,566)
Payments made for the acquisition of Investment properties	(780,346)	(565,041,450)
Due to related Parties	(13,517,507)	--
Accrued expenses and other payable	(984,917)	3,804,075
Deferred income	12,639,710	2,208,985
Net cash used in operating activities	<u>(56,831,208)</u>	<u>(563,704,116)</u>
Cash flow from financing activities		
Proceeds from initial subscription of units	--	600,000,000
Financing facility from a Bank	739,972	--
Dividend paid during the period	(19,050,000)	--
Net cash used in financing activities	<u>(18,310,028)</u>	<u>600,000,000</u>
Net change in cash and cash equivalents:	<u>(75,141,236)</u>	<u>36,295,884</u>
Cash and cash equivalents at beginning of the period	111,955,644	--
Cash and cash equivalents at end of the period	<u>36,814,408</u>	<u>36,295,884</u>

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

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the six month period ended 30 June 2019

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 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 Arabian Monetary Agency and operate in Saudi Arabia. The Fund may invest upto 25% of the fund's total assets in public money market funds and murabaha deposit.

The terms and conditions of the Fund were approved by the Capital Market Authority (the "CMA") on 16 Rabi 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 CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the six month period ended 30 June 2019

Expressed in Saudi Arabian Riyals

2 BASIS OF ACCOUNTING

These condensed interim financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards for interim financial reporting (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (“SOCPA”).

3 BASIS OF MEASUREMENT

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

4 FUNCTIONAL AND PRESENTATION CURRENCY

Items included in these condensed interim 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 condensed interim financial statements requires 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 change in depreciation charges, if any, are adjusted in current and future periods.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the six month period ended 30 June 2019

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 valuer.

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 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 include assessing the effect of reasonably possible reductions in occupancy and increase 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 as described below, the accounting policies applied in these condensed interim financial statement are the same as those applied in the last annual financial statements.

The Fund has initially adopted IFRS 16 Leases from 1 January 2019, the impact of which is not material to the financial statements.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees and not for lessor. Since the Fund, is a lessor, therefore there is no significant impact on these condensed interim financial statements.

6.1 *Cash and cash equivalents*

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the six month period ended 30 June 2019

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

Subsequent measurement

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

6.3 *Investment properties*

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

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

6.4 *Accrued expenses and other payables*

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

6.5 *Provisions*

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the six month period ended 30 June 2019

Expressed in Saudi Arabian Riyals

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

6.6 *Financing*

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

6.7 *Revenue recognition*

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

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 liability in the period in which they are approved by the Fund Board.

6.10 *Commission income and expense*

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

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

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

6.11 *Offsetting*

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

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the six month period ended 30 June 2019

Expressed in Saudi Arabian Riyals

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

6.12 Net asset (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 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 asset.

Financing arrangement fees

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

Brokerage fee and acquisition fee

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

Custody fee

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

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 onetime fee for listing of the fund equal to SR 50,000 and an annual fee of 0.03% of the Fund's unit market value for the continuing of listing for the Fund.

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the six month period ended 30 June 2019

Expressed in Saudi Arabian Riyals

8 RENT RECEIVABLE

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

	June 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Related Party (See note 11)	1,790,539	355,761
Other tenants	<u>11,722,458</u>	<u>15,328,302</u>
	13,512,997	15,684,063
Expected credit losses	<u>(464,763)</u>	<u>(464,763)</u>
	<u>13,048,234</u>	<u>15,219,300</u>

9 INVESTMENT PROPERTIES

9.1 Movement in investment properties, is as follows.

	June 30, 2019	For the period from April 1, 2018 to December 31, 2018
	(Unaudited)	(Audited)
Cost		
Balance at the beginning as at	1,045,533,413	--
Addition / acquisitions during the period	<u>780,346</u>	<u>1,045,533,413</u>
Balance at the end of the period as at	1,046,313,759	1,045,533,413
Depreciation and impairment loss		
Balance at the beginning as at	(16,784,468)	--
Depreciation charge for the period	(8,071,728)	(6,985,739)
Impairment charged during the period	<u>--</u>	<u>(9,798,729)</u>
Balance at the end of the period	<u>(24,856,196)</u>	<u>(16,784,468)</u>
Net book value as at	<u>1,021,457,563</u>	<u>1,028,748,945</u>

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9 INVESTMENT PROPERTIES (continued)

9.2 The details of the properties as at June 30, 2019 is as follows. 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) in the last year. The investment properties comprise of following properties:

	<u>Type</u>	<u>Location</u>	<u>Cost at the beginning of the period</u>	<u>Addition</u>	<u>Depreciation and Impairment Loss at the beginning of the period</u>	<u>Depreciation</u>	<u>Net book value June 30, 2019</u>	<u>Fair value June 30, 2019</u>
Khalidiyah Business Center (See 9.3)	Commercial	Jeddah	148,984,706	750,241	1,581,168	1,060,574	147,093,205	151,320,871
Al Ajazzera Compound (See 9.3)	Residential	Riyadh	67,465,000	--	394,757	261,975	66,808,268	69,000,000
Panda Jeddah	Commercial	Jeddah	39,300,000	--	210,206	139,500	38,950,294	39,800,000
Panda Riyadh	Commercial	Riyadh	78,765,000	--	424,140	281,475	78,059,385	81,600,000
Al Harmeen	Commercial	Jeddah	63,269,676	30,105	978,013	649,497	61,672,271	67,000,000
Al Rawda Business Center (See 9.3)	Commercial	Jeddah	126,495,000	--	11,934,575	1,307,626	113,252,799	115,020,912
Burj AlHayat	Commercial	Riyadh	41,260,000	--	593,548	393,900	40,272,552	40,350,000
Saudi Fransi Building	Commercial	Dammam	28,519,294	--	196,323	223,931	28,099,040	28,100,000
Panda Al rayan	Commercial	Dammam	62,545,580	--	295,047	373,931	61,876,602	63,500,000
Alhokair Time	Commercial	Dammam	34,206,942	--	176,691	223,931	33,806,320	33,900,000
Ajdan Walk	Commercial	Al Khobar	354,722,215	--	--	3,155,388	351,566,827	357,000,000
			<u>1,045,533,413</u>	<u>780,346</u>	<u>16,784,468</u>	<u>8,071,728</u>	<u>1,021,457,563</u>	<u>1,046,591,783</u>

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9 INVESTMENT PROPERTIES (continued)

9.2 The details of the properties as at December 31, 2018

	<u>Type</u>	<u>Location</u>	<u>Cost of acquisition</u>	<u>Addition</u>	<u>Depreciation</u>	<u>Impairment</u>	<u>Net book value December 31,2018</u>	<u>Fair value December 31,2018</u>
Khalidiyah Business Center (See 9.3)	Commercial	Jeddah	148,645,000	339,706	1,581,168	--	147,403,538	154,177,368
Al Ajazzera 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
Ajdan Walk	Commercial	Al Khobar	354,722,217	--	-	--	354,722,215	354,722,215
			<u>1,044,939,033</u>	<u>594,382</u>	<u>6,985,739</u>	<u>(9,798,729)</u>	<u>1,028,748,945</u>	<u>1,051,846,811</u>

9.3 For the six month period ended 30 June 2019, the Fund had recorded an impairment loss of SR Nil million (December 31, 2018: 9.8 million) on these properties due to other than temporary decline in valuation of these properties.

The impairment on these investment properties is determined based on the valuation by two independent valuers (refer 9.6). 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 31 December 2018. Accordingly, no impairment charge has been taken during the six months period ended 30 June 2019.

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9. INVESTMENT PROPERTIES (continued)

- 9.4 At June 30, 2019, SR 69 million (2018: 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:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Equity as reported	569,102,208	578,983,917
Net appreciation in value based on valuation as on	25,134,220	23,097,866
Equity at fair value of investment properties	594,236,428	602,081,783
Equity per unit, at cost	9.4850	9.6497
Impact on equity per unit for the appreciation in value	0.4189	0.3850
Equity per unit at fair value	9.9039	10.0347

- 9.6 In accordance with article 21 of the Real Estate Investment Funds Regulations issued by Capital Market Authority (CMA), Saudi Arabia, the Fund manager estimates the fair value of the Fund's real estate assets based on two valuations prepared by 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, investments in real estate properties are carried at cost less accumulated depreciation less impairment in these financial statements. Impairments are accounted for other than the temporary declines in the fair value of the respective properties below carrying values.

The valuation of the investment properties as at June 30, 2019 and December 31, 2018 is carried out by Value Strat and White Cubes, which are accredited valuers by Saudi Authority for Accredited Valuers (TAQEEM).

10 DIVIDEND PAYABLE

During the period, Fund has distributed cash dividends amounting to SR 9.9 million (2018:18.3 million). As at June 30, 2019 cash dividend amounting SR 9.9 (2018:9.15) million was paid subsequent to the period 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 are summarized below:

<u>Related party</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>Amount of transaction June 30, 2019</u> (Unaudited)	<u>Amount of transaction June 30, 2018</u> (Unaudited)	<u>Balance at June 30, 2019</u> (Unaudited)	<u>Balance at December 31, 2018</u> (Audited)
<u>Due to related party</u>	Fund Manager	Management fees	3,010,409	1,500,000		
Saudi Economic and Development Securities Company ("Fund Manager")		Admin fee	150,520	75,000		
		Shariah advisory fee	30,000	--		
		Reimbursement of fees paid on behalf of the fund	77,625	--	3,498,836	17,016,343
<u>Rent Receivable</u> (See note 8)						
Al Mahmal Trading Company	Affiliate	Rent income	(494,530)	(216,843)	(402,003)	(355,761)
Tarfeeh	Affiliate	Rent income	(714,615)	--	(1,362,265)	--
Tazweed	Affiliate	Rent income	(54,882)	--	(26,270)	--
					(1,790,538)	(355,761)
<u>Accrued expenses and other payable</u>	(See note 12)					
Al Mahmal Trading Company	Affiliate	Property Management and rent collection fees	2,395,354	875,408	1,014,308	1,709,311
Fund Board's remuneration	Fund Board	Remuneration	30,000	15,000	--	--

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12 ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables at comprise of the following:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Maintenance Fee Payable	1,014,308	1,709,311
Security deposits	1,158,904	1,033,904
Custody fee Payable	120,416	207,938
Tadawul Fees Payable	--	95,000
Valuation Fee Payable	--	61,500
Audit fee payable	32,500	40,000
Other payable	15,625	179,017
	2,341,753	3,326,670

13 DEFERRED REVENUE

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

	June 30, 2019 (Unaudited)	For the period from April 1, 2018 to December 31, 2018 (Audited)
Balance at the beginning as at	2,664,013	--
Rent received during the period	30,466,415	12,091,465
Adjusted against revenue earned	(17,826,705)	(9,427,452)
Balance at the end as at	15,303,723	2,664,013

14 FINANCING FACILITY FROM A BANK

The Fund has entered into a financing facility with a local bank with an approved limit of SR 600 million repayable in a single bullet payment up to December 31, 2024 and carrying profit at twelve months Sibor + 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 and Khalidiyah Business Center. As at June 30, 2019, the Fund has an undrawn amount of SR 95 million.

15 UNITS IN ISSUE

The Fund has issued 60 million units at the price of SR 10 per unit. For the period ended June 30, 2019, the Fund has distributed SR 19.8 million (year ended 2018: 27.45 million) as dividend and booked SR 9.9 million (year ended 2018: 6.4) million as income.

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16 OPERATING EXPENSES AND OTHER EXPENSES

Operating expenses and other expenses comprise of the following:

	June 30,	For the period
	2019	from 1 April
	(Unaudited)	2018 to 30 June
		<u>2018</u>
Operating expenses	3,034,280	946,219
Professional fees	104,335	647,100
Tadawul and edaa fees	175,178	295,944
ECL impairment	--	382,814
Custody fees	30,829	90,000
Board fees	30,000	15,000
Other expenses	247,883	87,437
	<u>3,622,505</u>	<u>2,464,514</u>

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 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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17 FINANCIAL RISK MANAGEMENT (continued)

17.1 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.

Commission rate sensitivity

As at June 30, 2019, 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 2,980,361.

(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.

(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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17 FINANCIAL RISK MANAGEMENT (continued)

17.1 Financial risk factors (continued)

Maximum exposure to credit risk at the reporting date:

	June 30 2019	December 31, 2018
	(Unaudited)	(Audited)
<u>Assets</u>		
Cash and cash equivalents	36,814,408	111,955,644
Financial asset at amorised cost	90,076,208	--
Rent receivable (See note 8)	13,048,234	15,219,300
	<u>139,938,850</u>	<u>127,174,944</u>

(c) Liquidity risk

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

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

The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise, principally through rental income, or by taking short / long term loans from the financial institutions. As at June 30, 2019, the Fund has an unutilized credit facility from bank amounting to SR 95 million (December 31, 2018: 95 million).

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

(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.

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17 FINANCIAL RISK MANAGEMENT (continued)

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

The standards, interpretations and amendments issued, but not yet effective up to the date of issuance of the condensed interim financial statements are disclosed below. The Fund intends to adopt these standards, where applicable, when they become effective.

Standard / Interpretation	Description	Effective from periods beginning on or after the following date
Conceptual Framework	Amendments to References to Conceptual Framework in IFRS Standards	January 1, 2020
IFRS 3	Definition of a Business (amendments to IFRS 3)	January 1, 2020
IAS 1 and IAS 8	Definition of Material (amendments to IAS 1 and IAS 8)	January 1, 2020
IFRS 17	Insurance contracts	January 1, 2021
IFRS 10 and IAS 28	Sale or contribution of assets between investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	Available for optional adoption / effective date deferred indefinitely

The Fund is currently assessing the implications of adopting the above mentioned standards, amendments or interpretations on the Fund's financial statements upon adoption.

19 LAST VALUATION DAY

The last valuation day of the period was June 30, 2019 (December 31, 2018: December 31, 2018).

20 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Fund Board on 6 Dhul Hijjah 1440H, corresponding to 7 August 2019,

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

Important Notice

- There are no material changes to the Fund's Terms and Conditions except for what is mentioned in this report
- The Fund doesn't invest substantially in other investment funds
- There's no other information that would enable the unitholders of making an informed judgement about the fund's activities during the period
- There are no other data or information required by the Investment Funds Regulations

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This document does not represent an offer to sell or participate in the Fund in any way, and all (or any part thereof) should not constitute the basis for conclusion of any contract whatsoever, or to rely in this connection, or be an incentive for the same. This document is confidential in nature and is only directed to applicant investors selected. If you have received this document by mistake, You are hereby required to disregard its content and return it to SEDCO Capital or to destroy it. The previous performance is not a guarantee of future results. Units, dividends, fund prices and currencies may depreciate and may also rise, and investors may get less than they originally invested. Changes in currency rates may adversely affect the value, price or income of securities. For illiquid securities, it may be difficult for the investor to sell or make a profit from the securities and obtain reliable information about their value or risk, and additional fees / charges may apply. Dividend income may fluctuate and a portion of the invested capital may be used to pay dividend income.

To ensure that you well understand the Fund and how well it suits you according to your risk level, we recommend consulting an experienced investment advisor. More information about the Fund is available in the existing IPO document, which should be carefully read before investing.

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For more information



+96612 690 6555



P.O. Box 13396, Jeddah
21493, Kingdom of Saudi
Arabia



www.sedcocalpital.com



+96612 690 6599



License No. 11157-37



info@sedcocalpital.com