

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



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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 2019	For the period from April 1, 2018 to June 30, 2018
Rental income		37,747,807	11,357,525
Murabaha income		842,317	--
		<u>38,590,124</u>	<u>11,357,525</u>
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		--	--
Total comprehensive income for the period		<u>9,918,292</u>	<u>(17,290,127)</u>



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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
	<u>(56,831,208)</u>	<u>(563,704,116)</u>
Net cash used in operating activities		
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	--	(9,798,729)
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>

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

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>
Khaliidiyah 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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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the six month period ended 30 June 2019
Expressed in Saudi Arabian Riyals

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)
	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,