

SEDCO CAPITAL REIT FUND
(Managed by Sedco Capital Company)

**CONDENSED INTERIM
FINANCIAL STATEMENTS (unaudited)**
For the period from 01 April 2018 to 30 June 2018
with
REVIEW REPORT TO THE UNIT HOLDER



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 Auditors' Report on Review of Condensed Interim Financial Statements

The Unitholders
SEDCO Capital REIT FUND
(Managed by SEDCO Capital)
Jeddah, Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying 30 June 2018 condensed interim financial statements of SEDCO Capital REIT FUND (the "Fund"), managed by SEDCO Capital (the "Fund Manager"), which comprises:

- the condensed interim statement of financial position as at 30 June 2018;
- the condensed interim statement of comprehensive income for the period from 1 April 2018 to 30 June 2018;
- the condensed interim statement of changes in net assets attributable to unitholders from 1 April 2018 to 30 June 2018;
- the condensed interim statement of cash flows for the period from 1 April 2018 to 30 June 2018; 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 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 2018 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

Nasser Ahmed Al Shutairy
License No. 454

Jeddah, Dhul Qadah, 19, 1439H
Corresponding to August 1, 2018



SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

CONDENSED INTERIM STATEMENT FINANCIAL POSITION (Unaudited)

As at 30 June 2018

Expressed in Saudi Arabian Riyals

	<i>Notes</i>	<i>30 June 2018</i>
ASSETS		
Cash and cash equivalents		36,295,884
Rent receivable	8	11,056,033
Prepayments		928,566
Investment properties	9	540,442,450
Total assets		588,722,933
LIABILITIES		
Accrued expenses and other payable	10	3,804,075
Deferred revenue	11	2,208,985
Total liabilities		6,013,060
Net assets attributable to Unitholders		582,709,873
Units in issue		60,000,000
Net assets value per unit (SAR)		9.7118

The accompanying notes 1 to 16 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 period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

	<i>Note</i>	<i>For the period from 1 April 2018 to 30 June <u>2018</u></i>
Rental income		11,357,525
EXPENSES		
Deprecation	9	2,086,853
Management and administrative fee	12	1,575,000
Operating expenses		1,558,108
Impairment on investment properties	9	22,512,147
Legal and professional charges		900,544
Board remuneration	12	<u>15,000</u>
Total expenses		<u>28,647,652</u>
Net loss for the period		(17,290,127)
Other comprehensive income for the period		<u>--</u>
Total comprehensive income for the period		<u>(17,290,127)</u>

The accompanying notes 1 to 16 form integral part
of these financial statements

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

CONDENSED INTERIM STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (Unaudited)

For the period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

	<i>For the period from 1 April 2018 to 30 June <u>2018</u></i>
Net assets attributable to Unitholders at the beginning of the period	--
Total comprehensive income for the period	(17,290,127)
Increase in net assets from unit transactions during the period	
Proceeds from initial subscription of units	<u>600,000,000</u>
Net assets attributable to Unitholders at the end of the period	<u><u>582,709,873</u></u>

The accompanying notes 1 to 16 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 period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

	<i>Note</i>	<i>For the period from 1 April 2018 to 30 June <u>2018</u></i>
Net loss for the period		(17,290,127)
Cash flow from operating activities		
<i>Adjustment for:</i>		
Depreciation	9	2,086,853
Impairment	9	<u>22,512,147</u>
		7,308,873
Net changes in operating assets and liabilities:		
Rent receivable		(11,056,033)
Prepayments		(928,566)
Investment properties		(565,041,450)
Accrued expenses and other payables		3,804,075
Deferred income		2,208,985
Net cash used in operating activities		<u>(563,704,116)</u>
Cash flow from financing activities		
Proceeds from initial subscription of units		<u>600,000,000</u>
Net cash generated from financing activities		<u>600,000,000</u>
Cash and cash equivalent at the end of the period		<u><u>36,295,884</u></u>

The accompanying notes 1 to 16 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 period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

1 THE FUND AND ITS ACTIVITIES

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

SEDCO Capital, a Saudi closed joint stock company licensed by the Capital Market Authority "CMA" as a licensed person under License No. 11157-37 dated 23/04/1430 H corresponding to 19/4/2009 manages the Fund. 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 will 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.

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

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

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.

The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the condensed interim statement of financial position. Instead, assets and liabilities are presented in order of their liquidity.

4 FUNCTIONAL AND PRESENTATION CURRENCY

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

Transactions and balances

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

Impairment of investment properties

Investment properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the investment property exceeds its recoverable amount which is the higher of its fair value less cost to sell and value in use. For the purpose of assessing impairment, investment properties are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Where an impairment loss subsequently reverses, the carrying amount of the investment property or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the investment property or cash generating unit in prior periods. A reversal of an impairment loss is recognized as income immediately in the condensed interim statement of profit or loss.

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Impairment of financial assets

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

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

6 SIGNIFICANT ACCOUNTING POLICIES

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

6.1 *Cash and cash equivalents*

For the purposes of the condensed interim 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 condensed interim statement of financial position.

6.2 *Financial instruments*

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

Initial recognition

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

Derecognition

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

Subsequent measurement

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

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

6.3 *Investment properties*

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

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised 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 recognised in condensed interim statement of 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.

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

6.5 *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.

6.6 *Zakat and income tax*

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

6.7 *Dividend payable*

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

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

6.8 *Offsetting*

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

6.9 *Net asset value per unit*

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

7 ADMINISTRATION AND OTHER FEES

Administration and Management Fees

The Fund Manager is entitled to receive an administration and management fee of 0.05% and 1% respectively per annum of Fund's net assets.

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 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.

8 RENT RECEIVABLE

This represent rent receivable from investment properties in accordance with the terms of the corresponding tenancy agreements. Rent receivable as at June 30, 2018 is as follows:

	<u>June 30, 2018</u>
Related Party (Note 12)	216,843
Other tenants	11,222,004
	<hr/>
	11,438,847
Expected credit losses	(382,814)
	<hr/>
	11,056,033

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

9 INVESTMENT PROPERTIES

9.1 Movement in investment properties during the period ended June 30, is as follows.

	<u>June 30, 2018</u>
Acquisition of properties during the period	565,041,450
Depreciation charge for the period	(2,086,853)
Impairment loss	<u>(22,512,147)</u>
Net book value at the end of the period	<u><u>540,442,450</u></u>

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

	<u>Type</u>	<u>Location</u>	<u>Cost of acquisition</u>	<u>Net book value</u> 30 June 2018	<u>Fair value</u> 30 June 2018
Khalidiyah Business Center*	Commercial	Jeddah	148,645,000	146,025,000	146,025,000
Al Ajazzera Compound*	Residential	Riyadh	67,465,000	56,816,000	56,816,000
Panda Jeddah	Commercial	Jeddah	39,300,000	39,230,441	41,135,500
Panda Riyadh	Commercial	Riyadh	78,765,000	78,624,648	82,764,000
Al Harmeen	Commercial	Jeddah	63,015,000	62,693,271	63,452,500
Al Rawda Business Center*	Commercial	Jeddah	126,495,000	115,989,500	115,989,500
Burj AlHayat	Commercial	Riyadh	41,260,000	41,063,590	41,240,000
			<u>564,945,000</u>	<u>540,442,450</u>	<u>547,422,500</u>

*The Fund has recorded an impairment loss of SR 22.51 million on these properties due to permanent decline in valuation of these properties

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

9 INVESTMENT PROPERTIES (continued)

9.3 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:

	<u>30 June 2018</u>
Net assets value as reported	582,709,873
Net appreciation in value based on valuation as on 30 June 2018	<u>6,980,050</u>
Net assets value at fair value of investment properties	<u><u>589,689,923</u></u>
Net assets value per unit, at cost	9.7118
Impact on net assets value per unit for the appreciation in value	<u>0.1163</u>
Net assets value per unit at fair value	<u><u>9.8281</u></u>

9.4 In accordance with article 21 of the Real Estate Investment Funds Regulations issued by Capital Market Authority (CMA), Saudi Arabia, the Fund manager evaluates the fair value of the Fund's real estate assets based on two evaluations prepared by the independent evaluators. However, in accordance with IFRS as endorsed in Kingdom of Saudi Arabia, investment in real estate properties are carried at cost less accumulated depreciation in these interim financial statements.

The valuation of the investment properties as at 30 June 2018 is carried out by Jones Lang LaSalle IP Inc. (JLL) and Esnad Real Estate Valuation, which are accredited valuer by Saudi Authority for Accredited Valuers (TAQEEM). Key assumptions for the valuation of the investment properties include the discount rate (7% to 8.75%) and exit yield rate (7.10% to 8.74%).

10 ACCRUED EXPENSES & OTHER PAYABLES

Accrued expenses and other payables at 30 June 2018 comprise of the following:

	<u>30 June 2018</u>
Security Deposits	1,121,404
Payable to fund manager (Note 12)	1,575,000
Property Management fees payable (Note 12)	451,314
Legal and professional charges	474,172
Custodian fee payable	90,000
Board fees (Note 12)	15,000
Other payable	<u>77,185</u>
	<u><u>3,804,075</u></u>

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

11 DEFERRED REVENUE

This represent rental income received in advance in respect of investment properties. Movement in deferred revenue for the period from 1 April to 30 June 2018 is as follows:

	<u>30 June 2018</u>
Amount transferred at acquisition	2,927,271
Rent received during the period	(2,318,424)
Adjusted against revenue earned	1,600,138
	<hr/>
Balance at the end of the period	2,208,985
	<hr/> <hr/>

12 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.

In addition to the related party transactions disclosed in Note 9 to the financial statements, significant related party transactions for the period from 1 April 2018 to 30 June 2018 are summarized below:

<u>Related party</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>Amount of transaction 2018</u>	<u>Balance at June 30, 2018</u>
Saudi Economic and Development Securities Company ("Fund Manager")	Fund Manager	Management fees	1,500,000	1,500,000
		Admin fee	75,000	75,000
				1,575,000
Al Mahmal Trading Company	Affiliate	Rent income	(216,843)	(216,843)
		Property Management and rent collection fees	875,408	451,314
				234,471
Fund Board's remuneration	Fund Board	Remuneration	15,000	15,000

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

13 FINANCIAL RISK MANAGEMENT

13.1 Financial risk factors

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

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

Monitoring and controlling risks is primarily set up to be performed based on the limits established by the Fund Board. The Fund has its Terms and Conditions document that set out its overall business strategies, its tolerance of risks and its general risk management philosophy and is obliged to take actions to rebalance the portfolio in line with the investment guidelines.

The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in foreign currency.

The Fund does not have any significant foreign exchange risk since the majority of its transactions are carried out in SAR

(ii) Commission rate risk

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

The Fund is not subject to commission rate risk, as it does not have any commission bearing financial instruments.

(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 condensed interim statement of financial position, the fund is not exposed to price risk.

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

13 FINANCIAL RISK MANAGEMENT (continued)

13.1 Financial risk factors (continued)

(b) Credit risk

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

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

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

(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 30 June 2018, the fund has an unutilized credit facility from bank amounting to SR 600 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.

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

13 FINANCIAL RISK MANAGEMENT (continued)

13.2 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 Company 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.

14 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Following are the new standards and amendments to standards are effective for annual periods beginning after January 1, 2018 and earlier application is permitted; however, the Fund has not early adopted them in preparing these interim financial statements.

(a) IFRS 16 Leases

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

14 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(a) IFRS 16 Leases (continued)

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

Determining whether an arrangement contains a lease

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

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

Transition

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

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

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

(b) Annual Improvements to IFRSs 2015–2017 Cycle

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business.
 - If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
 - If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
- IAS 12 Income Taxes – clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits i.e. in profit or loss, other comprehensive income or equity.
- IAS 23 Borrowing Costs – clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the period from 1 April 2018 to 30 June 2018

Expressed in Saudi Arabian Riyals

14 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(c) Other Amendments

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

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

15 LAST VALUATION DAY

The last valuation day for the period was 30 June 2018.

16 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Fund Board on Dhul Qadah, 19, 1439H, corresponding to August 1, 2018