

SEDCO
CAPITAL



SEDCO Capital REIT
Semiannual Report
June 2020

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Management Statements

It is our honor to present the 2020 semi-annual report of SEDCO Capital REIT to unitholders which includes main activities, achievements, operational results and general views with regards to the REIT portfolio along with the financial statements for the period ended 30 June 2020.

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 at 37% of the portfolio, 33% office, 20% retail, 6% Residential and 4% Hospitality.

Despite the short-term challenges facing the current portfolio as a result of the precautionary measures taken by our government to control the outbreak of the COVID-19 pandemic, the occupancy rate reached 91% slightly decreasing compared to last year occupancy rate 92% due to fund manager ability to respond to market changes efficiently and professionally. Properties leased to single tenant represent 67% of the current portfolio 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 4.74 years.

The average value of the Fund's property portfolio, as valued by two independent valuers, was estimated at SAR 1,031 million, decreasing by 0.06% compared to the total purchase price. The equity per unit at fair value has slightly decreased reaching SAR 9.6297 compared to SAR 9.8173 in December 2019.

There are some major contractual lease escalations during 2020; 33.3%, 5.9% and 5.3% for the properties leased to Banque Saudi Fransi, Burj Hayat and Panda Rayyan respectively, which expect to contribute positively in providing sustainable distributions to unitholders.

In terms of dividend distribution, the Fund announced a dividend distribution of SAR 0.305 per unit amounting to SAR 18,300,000 for the period from 1 January 2020 to 30 June 2020 which translates to 6.10% on an annual basis and in accordance with the targeted return stated in the Fund's terms and conditions.

In line with the Fund's strategy, the Fund Manager continues enhancing Al Khalidiya Business Centre by constructing a parking building and additional leasing space at a cost of SAR 16 million which is anticipated to add value to the property. Expected to be ready by end of 2020.

“There is no doubt that COVID 19 has had an impact on the portfolio returns as it is affecting tenants across all sectors, though we believe our strategy that focuses on geographical and sectorial diversification as well as a healthy balancing between long and short-term leases and single and multi-tenant leases. In addition, the initiatives we've undertaken in managing the Fund's finances and liquidity, such as the use of hedge instrument and proper utilization of excess cash will prove effectiveness to minimize the impact and stabilize the net operating income of the portfolio starting from the foreseeable medium term ”

Yasir Al Sasi
Head of Regional Real Estate

In accordance with the Fund's cash management strategy, the Fund has invested the available cash in Shariah-compliant Murabaha resulting in profits of SAR 1,167 during the period from 1 January 2020 to 30 June 2020.

The Fund Manager received several requests from tenants to consider deducting, suspending or deferring their rental contractual obligations as a result of COVID-19 precautionary procedures. The Fund Manager is evaluating the impact and the actual amount of losses on a case-by-case basis and will continue to monitor the developments in this regard in order to distribute stable cash dividends according to the Fund's terms and conditions.

In Q2 2020 the Fund Manager adopted some initiatives to improve the operational performance of the Fund and preserve the interests of the unitholders. Facility cost was successfully reduced by 45 basis points, with a shift from annual to semi-annual SAIBOR. In addition, the Fund Manager signed a Shariah-compliant hedging contract with Al Rajhi Bank to stabilize the price of SAIBOR and take advantage of the price dropdown and reduce the risk of interest rate fluctuations. The SAIBOR was fixed for 49% of the financing facility at 1.69% and for the remaining 51%, the SAIBOR was fixed at 1.43%. The hedging contract will expire in October 2023.

Finally, we would like to thank our unitholders for their 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.

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 Capital Market Authority (“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 years following the date of listing
Target Dividend	6.1%
Actual Dividend as of Reporting Date (on an annual basis)	6.1%

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. The Fund Manager is expected to announce dividends, record dates and distribution dates within 40 business days from the end of June and December of each calendar year. Dividends will be deposited within 90 business days of the announcement. 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 earnings (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 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 real estate development activities, whether owned by the Fund or not, or to renovate or redevelop those assets.

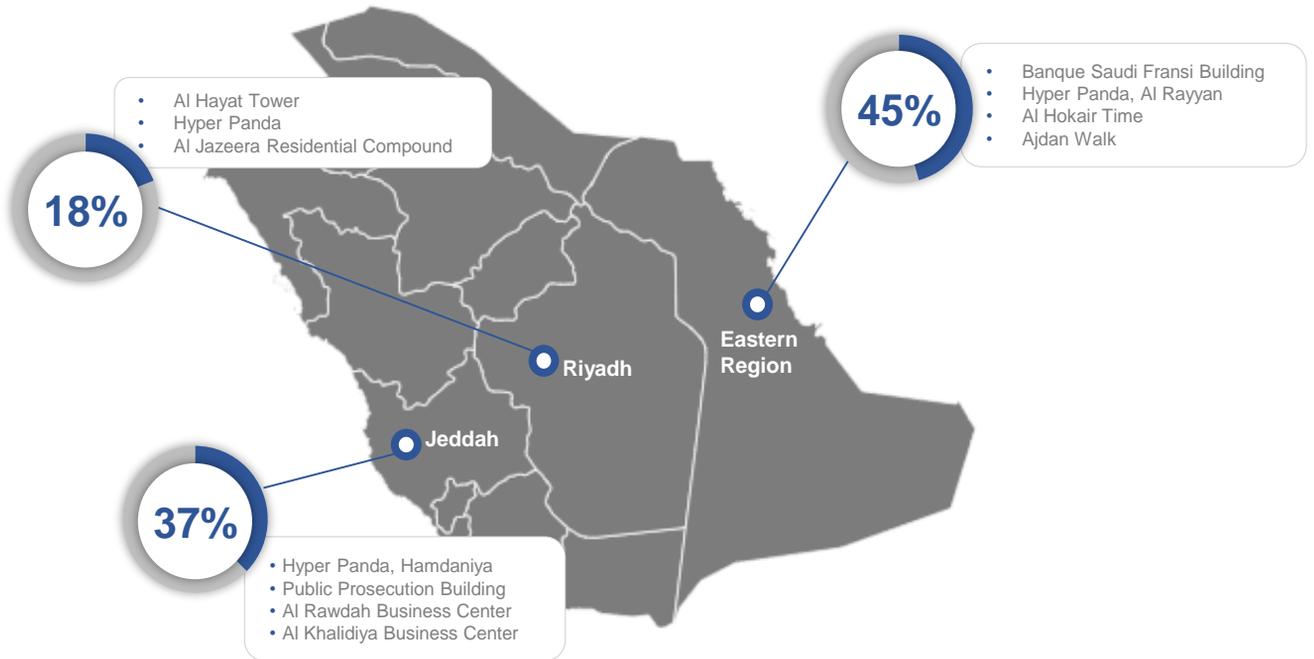
Fund Updates

- The occupancy rate reached 91% with slight reduction of 1% compared to December 2019;
- Whitecubes and ValuStart valued SEDCO Capital REIT properties. As of 30 June 2020, the fair value of the Fund's assets decreased by 0.06% reaching SAR 1,031 million;
- Fund's cash balance amounted to 26,114,423 as of 30 June 2020, including rent received. Part of the balance will be used for dividend distribution;
- The Fund has invested the cash available in Shariah-compliant Murabaha resulting in profits of SAR 1,167 during the period from 1 January 2020 to 30 June 2020;
- In line with the Fund's strategy, the Fund manager continues enhancing Al Khalidiya Business Centre by constructing a parking building and additional leasing space at a cost of SAR 16 million, adding value to the property. It is expected to be ready by the end of 2020;
- The Fund Manager received several requests from tenants to consider deducting, suspending or deferring their rental contractual obligations as a result of COVID-19 precautionary procedures. The Fund Manager is evaluating the impact and the actual amount of losses on a case-by-case basis and will continue to monitor the developments in this regard in order to distribute stable cash dividends according to the Fund's terms and conditions.
- In Q2 2020, the Fund Manager successfully reduced the facility cost by 45 basis points, with a shift from annual to semi-annual SAIBOR. In addition, the Fund Manager signed a Shariah-compliant hedging contract with Al Rajhi Bank to stabilize the price of SAIBOR and take advantage of the low rates and reduce the risk of interest rate fluctuations. The SAIBOR was fixed for 49% of the financing facility at 1.69% and for the remaining 51% the SAIBOR was fixed at 1.43%. The hedging contract will expire in October 2023.

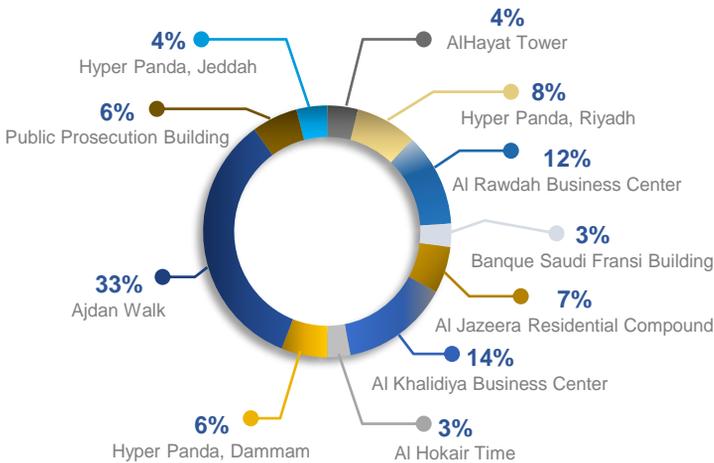
Portfolio Description

Geographical Diversity

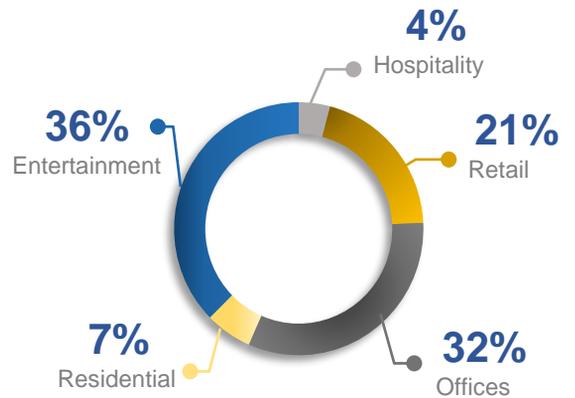
The Fund's assets are diversified across Riyadh 18%, Jeddah 37% and Eastern Province 45%.



Assets Allocation



Sectoral Diversification of the Portfolio



Properties - 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	4.5 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	8.0 years

Al Jazeera Residential
Compound



Description	Residential compound located in the center of Riyadh on Mashaja Bin Saud Street, Sulaymaniyah District
Sector	Residential
Land Area/m²	20,758
Building Area/m²	12,696
Occupancy Rate	98%
Annual Income	SAR 6,897,000
Tenant	Multiple tenants
Weighted Average Lease Expiry	0.5 years

Properties - Jeddah

Public Prosecution Building



Description	The Public Prosecution Building, located on the Rahmaniya Road, Al Rayyan District, Jeddah
Sector	Office
Land Area/m²	4,767
Building Area/m²	19,342
Occupancy Rate	100%
Annual Income	SAR 5,500,000
Tenant	Saudi Commission for Investigation and Prosecution (Public Prosecution)
Weighted Average Lease Expiry	0.7 years

Al Khaldiya Business Center



Description	A commercial/office center located on Prince Sultan Street, Al Khaldiya District, Jeddah
Sector	Office
Land Area/m²	7,903
Building Area/m²	24,876
Occupancy Rate	72%
Annual Income	SAR 9,386,282
Tenant	Multiple tenants
Weighted Average Lease Expiry	2.2 years

Hyper Panda - Jeddah



Description	Hypermarket is located on 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	7.6 years

Al Rawdah Business Center



Description	A commercial/office center located on Prince Saud Al Faisal Street, Al Rawdah District
Sector	Office
Land Area/m²	2,463
Building Area/m²	17,526
Occupancy Rate	62%
Annual Income	SAR 6,253,076
Tenant	Multiple tenants
Weighted Average Lease Expiry	1.0 years

Properties - Dammam

Banque Saudi Fransi Building



Description	A building leased by Banque Saudi Fransi located on Imam Ali Bin Abi Talib, Al Rayyan District, Dammam
Sector	Retail
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	5.4 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 5,228,170
Tenant	Al Azizia Panda United Company
Weighted Average Lease Expiry	4.6 years

Al Hokair Time Center



Description	Al Hokair Time is located on the East Coast of Dammam
Sector	Entertainment
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	16.9 years

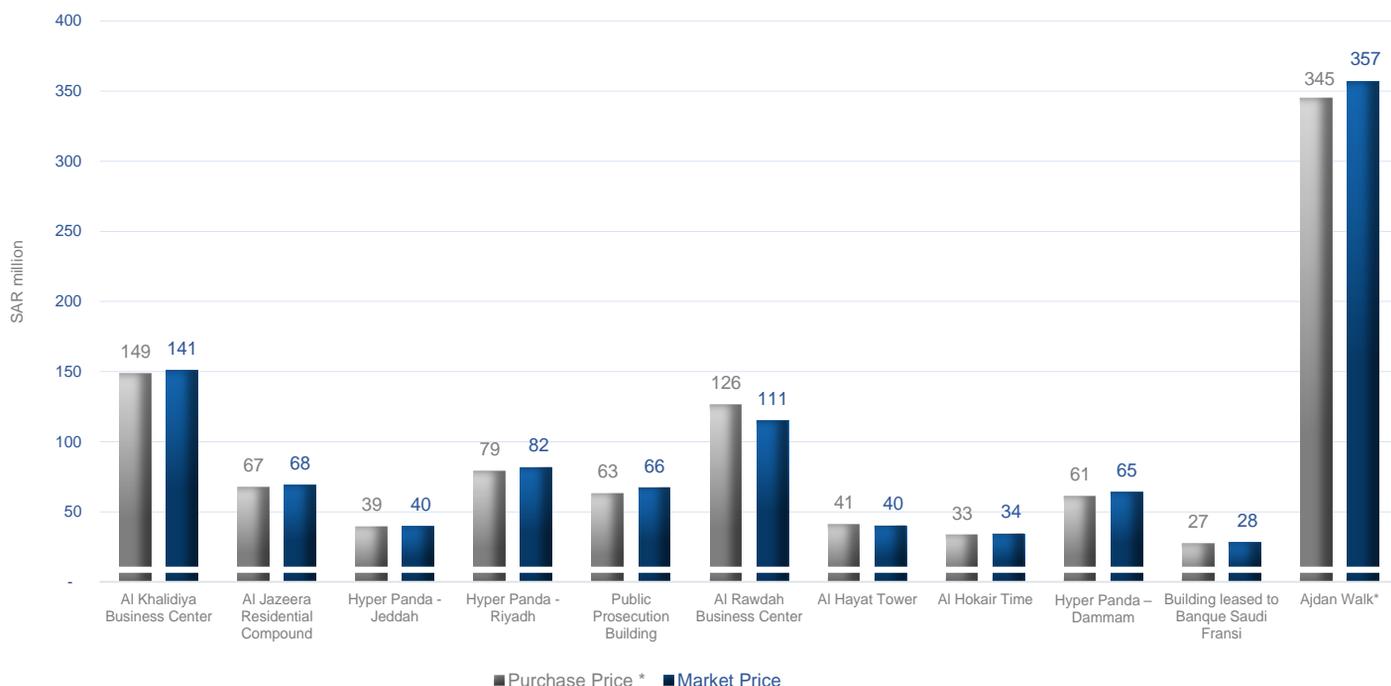
Ajdan Walk



Description	Ajdan Walk is located on Prince Turki Street in Al Khobar
Sector	Entertainment / Office
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	8.6 years

Fair value vs. Purchase Price

Based on the average valuation of two independent accredited real estate valuers; ValuStrat and Whitecubes, the fair value of the Fund's assets at the end of June 2020 was reduced by 0.06% reaching SAR 1,031 million, compared to the total purchase cost, excluding transaction costs.



* Purchase price does not include acquisition 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%	4.5 years
Hyper Panda - Riyadh	Leased	100%	8.0 years
Al Jazeera Residential Compound	Leased	98%	0.5 years
Public Prosecution Building	Leased	100%	0.7 years
Al Khalidiya Business Center	Leased	72%	2.2 years
Hyper Panda - Jeddah	Leased	100%	7.6 years
Al Rawdah Business Center	Leased	62%	1.0 years
Building leased to Banque Saudi Fransi	Leased	100%	5.4 years
Hyper Panda – Dammam	Leased	100%	4.6 years
Al Hokair Time	Leased	100%	16.9 years
Ajdan Walk	Leased	100%	8.6 years

100% of the Fund's assets are leased and income generating

Portfolio Average
Occupancy Rate 91%

Portfolio Average WALE 4.74 years

Portfolio Occupancy Rate

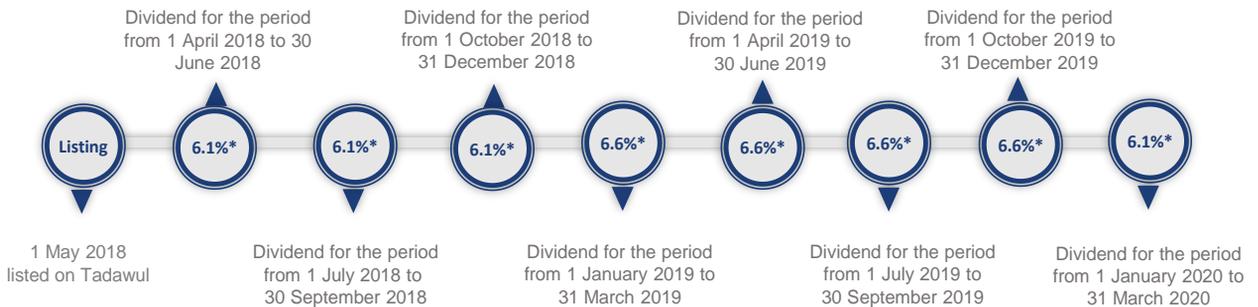
As of 30 June 2020, the occupancy rate reached 91% with a slight decrease of 1% compare to 31 December 2019.



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 90 calendar days following the end of June and December of each calendar year, excluding capital gains arising from the sale of assets which may be reinvested in additional assets for the interests of unitholders.

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



Transactions with Related Parties

The Fund Manager’s transactions with related parties are 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 1% of total Fund revenues whereas maintenance contracts account for 13% 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.

* Annual basis

Material Development During the Period

- The Fund Manager announced on its website and Tadawul’s that it has received an approval from the Fund’s Board of Directors to increase the capital of the Fund. The Fund Manager will then proceed to obtain all required regulatory approvals; Capital Market Authority, Tadawul and majority of the unitholders. As the Fund aims to acquire a real estate portfolio with a value of more than SAR 900 million, consisting of 10 income-generating properties in different sectors located between Riyadh and the Eastern Region.
- The Fund Manager received several requests from tenants to consider reducing, suspending or deferring their rental contractual obligations as a result of COVID-19 precautionary measures. The Fund Manager is evaluating the impact and the actual amount of losses on a case-by-case basis and will continue to monitor the developments in this regard in order to distribute stable cash dividends according to the Fund's terms and conditions.
- The Fund Manager successfully reduced the facility cost by 45 basis points, with a shift from annual to semi-annual SAIBOR. In addition, the Fund Manager signed a Shariah-compliant hedging contract with Al Rajhi Bank to stabilize the price of SAIBOR and take advantage of the low rates and reduce the risk of interest rate fluctuations. The SAIBOR was fixed for 49% of the financing facility at 1.69% and for the remaining 51% the SAIBOR was fixed at 1.43%. The hedging contract will expire in October 2023.

Summary of Fund’s Performance

The Fund has successfully achieved its target objective by distributing 6.1% cash dividend -on an annual basis- for the period between 1 January 2020 and 30 June 2020.

Changes to the Fund’s Documents

- Updated the investment objectives listed under the fund summary to include the updated dividend policy.
- The profit distribution policy and timing have been modified under the fund summary.
- The objectives of the fund have been amended to include the updated dividend policy.
- The dividend and other distributions clause has been amended.
- Amended “reporting the net asset value” clause.
- The Board of Directors clause has been updated to reflect the recent change, replacing the resigning director Nawaf Jamjoom with Abdulwahhab Abed, a non-independent director.
- Updated the list of directorships.
- Updated the financial statements clause.

Subsequent Events

On 11 August 2020, The Fund Manager distributed a total of SAR9,150,000 cash dividend for the period 1 April 2020 to 30 June 2020. the distribution amount is SAR 0.1525 per unit, translating to 6.10% on an annual basis.

Stock

The stock witnessed different levels of volatility during the first half, recording its highest price at 9.94 SAR, and lowest at 8.01 SAR, to end the last trading session on 30 June 2020 at 8.22 SAR.



Topics Discussed and Resolutions Issued by the Fund Board

DATE	TOPICS	RESOLUTIONS
10 February 2020	<ul style="list-style-type: none"> Appointment of Representatives of the Issuer 	<ul style="list-style-type: none"> Approved appointing Mr. Nawaf Jamjoom and Mr. Sultan Sukkar as representatives before the Exchange for all purposes relating to the Listing Rules.
26 February 2020 (6 th Fund Board meeting)	<ul style="list-style-type: none"> Fund's Capital Increase Plan 	<ul style="list-style-type: none"> Approved the Fund Capital increase plan. Approved appointing a legal advisor to handle all legal matters associated with this transaction. Approved (if needed), to explore engaging service providers such as underwriter, financial advisor, Zakat and Tax advisor, and accredited real estate valuers.
19 March 2020	<ul style="list-style-type: none"> The Audited Financial Statements 	<ul style="list-style-type: none"> Approved the draft of the Fund's audited financial statements for the period from 1 January 2019 to 31 December 2019.
24 March 2020	<ul style="list-style-type: none"> Fund Board Report 	<ul style="list-style-type: none"> Approved the Fund's Annual Board report, which was published as part of the Fund's annual report.
31 March 2020	<ul style="list-style-type: none"> Increasing the Bank Facilities Limit 	<ul style="list-style-type: none"> Approved the increase of the bank facility limit. Approved the related administrative fees. Approved hiring a legal advisor to review the transaction.
06 April 2020	<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 2020.
13 April 2020	<ul style="list-style-type: none"> Discounts requests from tenants affected by the consequences of the Corona virus 	<ul style="list-style-type: none"> Approved the maximum limits for discounts that the Fund Manager may grant to certain tenants affected by the precautionary measures of Corona Virus pandemic.
12 May 2020	<ul style="list-style-type: none"> Terms and conditions update 	<ul style="list-style-type: none"> Approved the updated version of the fund's terms and conditions
12 May 2020 (7 th Fund Board Meeting)	<ul style="list-style-type: none"> Hedge agreement 	<ul style="list-style-type: none"> Approved signing a Shariah-compliant hedging agreement for part of the existing bank facility.
31 May 2020	<ul style="list-style-type: none"> Appointment of Representatives of the Issuer 	<ul style="list-style-type: none"> Approved appointing Mr. Abdulwahhab Abed and Mr. Sultan Sukkar as representatives before the Exchange for all purposes relating to the Listing Rules.
17 June 2020	<ul style="list-style-type: none"> Hedge agreement 	<ul style="list-style-type: none"> Approved signing a Shariah-compliant hedging agreement for the remaining part of the existing bank facility.

Financial Performance

Fund Size	As of 31 Dec 2018	As of 31 Dec 2019	As of 30 June 2020
Net market value of the Fund's assets at the end of the financial year (Fair Value)	602,081,783	589,037,823	577,781,541
Net market value of the Fund's assets per unit at the end of the financial year (Fair Value)	10.0347	9.8173	9.6297
Net market value of the Fund's assets at the end of the financial year (Book Value)	578,983,917	561,523,849	554,151,762
Net market value of the Fund's assets per unit at the end of the financial year (Book Value)	9.6497	9.3587	9.2359
Highest net asset value per unit for each financial year (Fair Value)	10.0347	9.9039	9.6297
Lowest net asset value per unit for each financial year (Fair Value)	9.8281	9.8173	9.6297
Income distribution per unit	0.46	1.30	0.63
Percentage of expenses borne by the Fund	3.54%	10.01%	4.84%
Net income	6,433,917	22,139,932	1,776,596
Distribution yield (based on market traded price)	6.10%	6.63%	5.87%
Number of units in issue	60,000,000	60,000,000	60,000,000

Services, Fees and Commissions Charged to the Fund Throughout the Year

Indicator	As of 31 Dec 2019	As of 30 June 2020
Operating expenses	7,640,683	2,813,535
Management fees	5,981,591	2,945,189
Finance fees	26,963,654	11,523,500
Professional fees	452,873	329,463
Other costs	1,828,087	2,206,650
Depreciation and amortization	16,122,408	15,908,489
Total expenses	58,989,296	35,726,825

Special Commissions Received by the Fund Manager

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

Fund Manager's Investments

The Fund Manager holds 2,474,341 units, representing 4.12%.

Performance Record

Period	Total return
Since Inception	6.35% (on an annual basis)
One Year	6.43% (on an annual basis)
Three Years	N/A
Five Years	N/A

	2018	2019	June 2020
Total Return	6.10% (on an annual basis)	6.60% (on an annual basis)	6.43% (on an annual basis)

Leverage

- Financing amount equals SAR 490 million, representing 49%.
- For Financial Statements and IFRS reporting requirements, the financing amount equates SAR 487.9 million and the leverage ratio equates 49%.

Real Estate Market in Riyadh*

Hospitality Sector

Total quality hotel supply as of March 2020 stood at 16,476 rooms. Considering only projects that have broken ground, this number is expected to increase 33% by 2022 end. Despite the sharp drop in performance in March, YTD RevPAR levels were up 8.6% YoY in Q1 2020. Strong KPIs in terms of occupancy and revenue during the early part of the year, ascribed to extension of the Riyadh Season initiative and a slight variance in school holiday periods, have since eroded, with market-wide RevPAR levels dropping 39.3% YoY as of March 2020. Additional declines in key parameters are expected in the coming months owing to the current market conditions.

Retail Sector

The total retail supply for Riyadh for Q1 2020 stood at 2.78 million sqm GLA and is predicted to touch 3.51 million sqm of GLA by 2022. The retail market exhibited muted performance in Q1 2020, with average rents for regional/super-regional malls remaining stable at 2,764 SAR/sqm, while those for community malls fell 3% to 2,040 SAR/sqm. Market-wide vacancy rates increased 2% to reach 17% in Q1 2020. While the average vacancy rate in regional/super-regional malls remained relatively stable, community malls and Grade B retail centers reported an uptick in vacancy rates. Alternatively, the total number of retail POS transactions for Q1 2020 rose by 0.44% QoQ to 176.02 million from 143,578 terminals.

Residential Sector

As of Q1 2020, Riyadh's housing supply was estimated at 1.25 million units and is forecast to reach 1.34 million units by 2022 end. The bulk of the addition in supply would comprise apartments and townhouses, in line with changes in affordability and design requirements in the capital city. Sale prices for residential apartment and villas surged 4.2% and 6.3%, respectively, in Q1 2020, largely driven by various government initiatives such as mortgage market expansion and increased private sector participation in the housing market. Concurrently, the total volume and value of residential transactions declined in equal terms by 22% over the same period.

Real Estate Market in Dammam*

Office Sector

Dammam's office market continued to weaken in Q1 2020, with Grade A rents falling 3% to 933 SAR/sqm and Grade B rents declining 6% to 624 SAR/sqm. Vacancy rates for the former increased 3% YoY to 28% and those for the latter rose 4% YoY to 37%. After the delivery of one major project that added 37,800 sqm of GLA in Q1 2020, total office stock in the city stood at 1.16 million sqm of GLA and is estimated to reach 1.47 million sqm GLA by 2022.

Entertainment Sector

The 2020 outlook for Saudi Arabia's entertainment sector, previously hampered by economic fallout of oil price shocks and the COVID-19 pandemic, is expected to turn around in the post-recovery period. With guidelines being announced by the General Entertainment Authority for the resumption of recreational activities, tourism and entertainment spending is back on track to achieving the Vision 2030 goal of increasing per capita share of household expenditure in these industries. These health guidelines will enforce coronavirus protocols

aligned to the "We Return with Caution" campaign focusing on physical distancing, organizational and preventive dimensions, all by adjusting the crowd flow and seating arrangements that stipulate a distance of two meters between individuals. Conversely, the projects delayed by the ongoing pandemic includes the inaugural of the Red Sea International Film Festival, Saudi Arabia's first-ever film festival, which was scheduled for 12 March. The 10-day festival, set to be hosted in Jeddah, was expected to feature a number of regional and international films and guests, including Academy Award winner Spike Lee. Sports events scheduled to be held in the Kingdom have also been affected; for example, the Formula 1 Powerboat World Championship has indefinitely postponed its Saudi Grand Prix.

Real Estate Market in Jeddah*

Office Sector

Jeddah's office market exhibited muted performance in Q1 2020, with Grade A rents falling 6% to 1,038 SAR/sqm and Grade B rents declining 7% to 714 SAR/sqm. For the same quarter, the vacancy rate for the former increased 4% YoY to 16% and that for the latter rose 7% YoY to 28%. With the delivery of around 19,000 sqm GLA of office space in Q1 2020, the city's total office supply reached 1.23 million sqm of GLA, with an estimated rise to 1.68 million sqm of GLA by 2022.

Retail Sector

Rents in Jeddah's retail market continued to decline in Q1 2020, with average rents for regional/super-regional malls decreasing 3% to 2,870 SAR/sqm and those for community malls falling 4% to 1,785 SAR/sqm. The market-wide vacancy rate reduced by 3% to 10%, a trend primarily observed in malls with newly introduced retail concepts and flexible leasing options to retain tenants. As of Q1 2020, retail stock stood at 1.86 million sqm of GLA and is projected to reach an estimated 2.77 million sqm of GLA by 2022. However, some projects are expected to be delayed on weak market and business conditions. The total number of POS retail transaction rose 7.86% QoQ to 75.15 million from 73,543 terminals.

SEDCO Capital Perspective For Macro Economy*

The Saudi economy is facing a slowdown driven by volatility in the oil sector and pandemic-led disruption in the non-oil sector. The oil sector revenues for the kingdom continued to decline with oil prices reaching historic lows (WTI oil prices reached an all-time low of negative USD 37.6 per barrel in April) followed by a recovery in June as the prices increased as high as USD 41 per barrel as Saudi Arabia and Russia successfully agreed to extend their oil output cuts and urged other producers to keep their pledge. In Q1 2020 Saudi Arabia oil export revenue declined by 21.9% QoQ, to reach SAR149.95 billion. Given the uncertainties related to oil prices as well as COVID-19 pandemic, the Ministry of Finance is expecting and is committed to a government budget deficit of 9% of GDP in 2020 as compared to the previously projected deficit of SAR187 billion for 2020 and SAR131 billion in 2019.

Revenue from non-oil sectors for Q1 2020 dropped 17.0% QoQ to SAR63.6 billion. Non-oil private sector output hit a record low, with an overall decline due to curfews, suspensions and closures as a result of COVID-19. Non-oil sector growth is expected to be weak for 2020 owing to low domestic demand, following coronavirus-driven suspension across critical sectors of the economy.

The Kingdom raised SAR 9 billion in June and SAR 26 billion in bonds in April 2020 following an increase in its debt ceiling to 50% of GDP from the previous 30% in March 2020. It is expected that the government may issue an additional SAR100 billion of debt in 2020 keeping its drawdown from reserves at up to SAR 120 billion as originally planned in the budget. The estimated general government net lending/borrowing (as a % of GDP) is -12.6% in 2020, declining from -4.5% in 2019 and is expected to reach -9% in 2021.

The Wholesale Price Index fell 2.1% YoY in May 2020, reaching its 15-month low, compared to a 0.6% increase in April 2020. The decline was primarily due to lower prices of refined petroleum products (-20.9% YoY), which was partially offset by an increase in prices of products of agriculture (9.9% YoY), and live animals and animal products (22.5% YoY). The kingdom has jumped two places to 24th rank of the 63 countries, from 26th in 2019, in the global consumer price index category of the World Competitiveness Yearbook 2020 published by the international institute of management.

In response to the economic impact of the COVID-19 crisis the government announced an increase in VAT to 15.0% from 5.0%, starting July 1 in addition to stop cost-of-living allowance to government workers from June.

Although in Q1 2020 the global Foreign Direct Investment (FDI) fell to its lowest level in two decades (down up to 40%), in KSA the FDI grew at its fastest pace in a decade with 19.0% QoQ increase in the number of foreign start-ups during the quarter with more than 70% full foreign ownership licenses and the rest were joint venture partnerships with domestic partners. Nearly 348 foreign companies were granted investor licenses during the period, led by India (41 companies) and the US (37 companies) closely followed by countries such as Lebanon, UK and Egypt; China launched 11 companies. These firms were focused on emerging sectors such as finance, education, tourism and pilgrimage.

The real GDP growth is expected to fall -6.8% YoY in 2020 owing to the severe impact of lockdown and business suspension on economic activity but rise to 3.1% YoY in 2021 compared to the 0.3% YoY increase in 2019.

Besides, the outward flow of expatriates continued with an estimated 1.2 million expat workers expected to leave Saudi Arabia by the end of 2020, unemployment rate stabilized at 5.7% in Q1 2020 compared to the same quarter in 2019.

Saudi inflation eased to 1.1% YoY in May 2020 from 1.3% YoY in April 2020. F&B was the highest contributor, with an average rise of 7.4% YoY. The inflation rate is projected to reach 0.9% in 2020 and further rise to 2.0% in 2021 as against a decline of 1.2% in 2019.

Saudi Arabia has lifted lockdown entirely from June 21 after completing the third stage of the reopening plan that the Kingdom started implementing on May 28.

The partial and total lockdown restrictions in response to the COVID-19 spread have caused major disruption to commercial and business activities across sectors in the Kingdom. The government announced various policy measures and stimulus to revive the market and support businesses. The central bank cut its key interest rates by 50 basis points in March. The Saudi Arabian Monetary Authority (SAMA) cut its repo rate by 50 basis points to 1.75% and its reverse repo rate by 50 basis points to 1.25%. To further preserve monetary stability, SAMA slashed interest rates by 75 basis points (0.75%), bringing down the repo rate to 1.00% and reverse repo rate to 0.5%.

SAMA launched a set of support packages to support the private sector amounting to almost USD61 billion to support the private sector affected by pandemic-led economic disruption. In June, the country launched a new stimulus package of SAR36 billion to support SMEs operating in the construction sector.

SEDCO Capital Perspective For Real Estate Segment*

REIT and real estate group indices witnessed a decline in the first half 2020, in line with overall market performance. There are 17 REIT funds listed on Tadawul to date, with total market capitalization of SAR13.6 billion in June 2020, from SAR13.9 billion in December 2019. The REIT Group Index edged down to 3,682 points in June 2020 from 4,198 in December 2019. This was in line with the Real Estate Index, which fell to 2,486 points in June 2020 from 3,132 in December 2019. However, given the volatility in the markets, the value, volume and transactions traded of REITs rose 1.5%, 11.0% and 43.7%, respectively, between Q4 2019 and Q2 2020. The value, volume and transactions traded of the Real Estate Index increased 128.5%, 260.0% and 122.4%, respectively, for the same period. The annualized dividend yields of the REITs are between 5.3-9.8% and an average yield of 7.2% as of July 2020. The Kingdom has witnessed five IPOs in 2020 so far, including a real estate company listing – Sumou Real Estate Co. We expect that the IPOs slated for the beginning of the year to be pushed back due to the impact of COVID-19 and volatile oil prices in the market.

With government focus on raising home ownership among nationals, the Kingdom has successfully achieved the target of 60% for 2020 and is further working towards increasing home ownership to 70% in 2030. The Sakani programme under Vision 2030 delivered about 7,500 units in Riyadh and 1,800 units in Jeddah in Q1 2020. The Sakani Program provided 2,300 plots through 7 plans and launched a 115-villa residential project for the citizens in Q2 2020. The Ministry of Housing suspended applications for support under the Sakani program starting May 31. In Q2 2020 the total value and number of contract for new residential mortgages for individuals reached 58,836 million and 128,498 contracts respectively with an increase of 102% and 99% respectively compared to the same period last year. We expect residential projects in the pipeline or under construction may be delayed due to COVID-19 pandemic short and long-term disruption in addition to the imposition of higher VAT which will result in increasing the cost of residential developments and sale prices, leading to a reduced demand and slower absorption.

In Q2 2020, average sale prices for residential units increased by 3.5% in YoY in Riyadh and decreased 6% on YoY for Jeddah. Average rent prices for the same period decreased for Riyadh and Jeddah by 1% and 5% respectively. Transaction volumes obviously declined amid lockdown.

Retail real estate was negatively impacted in 2020 owing to pressure on rent rates, as opposed to last year's strong performance. This domain is expected to witness a significant drop in consumers shopping from physical retail spaces and visiting restaurants or entertainment centers till end of the year, even after gradual easing of lockdown, owing to health concerns. As a result, the retail space is forecast to underperform in the short to medium term. However, demand for warehousing, led by retail, would surge considerably, as more consumers turned to online shopping during the lockdown.

The Kingdom's hospitality industry has been affected due to travel restrictions during the pandemic. The suspension of flights, the Umrah season and limiting the number of pilgrims in the Kingdom to perform Hajj in 2020 have hit tourism and thereby impacted the hospitality space negatively. The annual occupancy rate in Makkah declined to 41% YTD in May 2020 compared to 70% YTD in May 2019. However, over the longer-term, the Kingdom's tourism demographics is expected to evolve led by the government's Vision 2030 initiatives to boost tourism (such as the launch of international tourist e-visas for 49 countries in 2019).

The rent for office sector also decreased by 1% and 3.5% in Riyadh and Jeddah respectively for grade A&B. Across the four main Saudi cities no new office GLA has been handed over. The Ministry of Finance decided to restrict any lease renewals for government agencies unless rental rates are reduced by 20%.

Nevertheless, Saudi Arabia has continued to invest to increase tourism's current share of GDP from 2% to 10% by 2030 and add from 400,000 to 500,000 jobs for Saudis in the industry as per the "Vision 2030". The Kingdom has launched a tourism development fund with an initial capital of USD4 billion to develop its tourism industry, as mentioned by the Ministry of Tourism in June 2020. The announcement, in the current scenario wherein the global industry is facing challenges, is a testimony of the investor and private-sector confidence in the Kingdom's long-term tourism sector outlook. Some of the major tourist attractions include; date palm oasis of Al-Hofuf, UNESCO listed sites of Ad-Diriyah and AlUla, Masmak Fortress and Gate to Makkah. Additionally, the Kingdom is also promoting horse and camel racing and beauty pageants and "Summer of Saudi Arabia" that includes 10 destinations for climatic diversity. The government is also reviving handicrafts of the local communities for tourist attraction.

*Sources: Saudi Arabia Budget 2020 | Ministry of Finance; GASTAT | International Monetary Fund (IMF) | www.reuters.com | www.zawya.com | SAMA | Invest Saudi; REITs Insights On Saudi Arabia Q4 2019 | Knight Frank; Saudi Arabia Real Estate Market Review | Knight Frank; Sakani Report 15 January 2020 | SAKANI; The KSA Real Estate Market A Year in Review 2019 | JLL; Monthly bulletin Report January 2020 | SAMA; Labor Force Survey | General Authority of Statistics; Saudi Arabia Entertainment 2020

Fund Manager

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Saudi Economic and Development Securities Company (SED CO 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 19/04/2009 to manage, advise, arrange, deal and provide custody services with respect to the financial securities business. SED CO 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 2020 condensed interim financial statements of SED CO 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 2020 to 30 June 2020

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

**CONDENSED INTERIM
FINANCIAL STATEMENTS (Unaudited)**
For the six months period ended 30 June 2020
With
**INDEPENDENT AUDITOR'S
REVIEW REPORT TO THE UNITHOLDERS**



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

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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 2020 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 2020;
- the condensed statement of comprehensive income for the six months period ended 30 June 2020;
- the condensed statement of changes in net assets (equity) attributable to unitholders for the six months period ended 30 June 2020;
- the condensed statement of cash flows for the six months period ended 30 June 2020; 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 2020 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 Shutaini
License No. 454

Jeddah, 16 Dhul-Hijjah 1441H
Corresponding to 6 August 2020



SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

CONDENSED INTERIM STATEMENT FINANCIAL POSITION (Unaudited)

As at 30 June 2020

Expressed in Saudi Arabian Riyals

	<u>Notes</u>	30 June 2020 (Unaudited)	31 December 2019 (Audited)
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents		26,114,423	34,534,020
Rent receivables	8	10,006,092	7,634,432
Prepayments and other receivables		7,090,572	6,264,308
Total current assets		43,211,087	48,432,760
Non-current assets			
Investment properties	9	1,007,239,221	1,019,938,026
Total assets		1,050,450,308	1,068,370,786
<u>LIABILITIES</u>			
Current Liabilities			
Dividends payable	10	--	9,900,000
Due to related parties	11	3,683,108	5,053,513
Accrued expenses and other payable	12	1,433,344	2,300,598
Deferred revenue	13	1,810,406	5,033,571
Derivative instruments at fair value through profit or loss	15	1,512,444	--
Financing facility from a bank	14	1,667,765	25,326,863
Total current liabilities		10,107,067	47,614,545
Non-current liabilities			
Financing facility from a bank	14	486,191,479	459,232,392
Total liabilities		496,298,546	506,846,937
Net asset (equity) attributable to unitholders		554,151,762	561,523,849
Units in issue (number)	16	60,000,000	60,000,000
Net asset (equity) per unit (SAR)		9.2359	9.3587

The accompanying notes 1 to 22 form integral part
of these condensed interim financial statements

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the six months period ended 30 June 2020

Expressed in Saudi Arabian Riyals

	<u>Notes</u>	30 June 2020	30 June <u>2019</u>
Rental income		37,502,254	37,747,807
Murabaha income		1,167	842,317
		37,503,421	38,590,124
EXPENSES			
Depreciation		8,132,234	8,071,728
Management, administrative and shariah fee	7	3,107,449	3,190,929
Operating and other expenses	17	3,622,314	3,622,505
Impairment on rent receivables	8.1	1,500,000	--
Impairment on investment properties	9	6,263,811	--
Unrealised loss on derivative instruments at fair value through profit or loss	15	1,512,444	--
Financing fee and charges		11,588,573	13,786,670
Total expenses		35,726,825	28,671,832
Net income for the period		1,776,596	9,918,292
Other comprehensive income for the period		--	--
Total comprehensive income for the period		1,776,596	9,918,292

The accompanying notes 1 to 22 form integral part of these condensed interim 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 2020

Expressed in Saudi Arabian Riyals

	<u>2020</u>	<u>2019</u>
Net assets (equity) attributable to Unitholders at 1 January	561,523,849	578,983,917
Total comprehensive income for the period	1,776,596	9,918,292
Dividend	(9,148,683)	(19,800,000)
Net asset (equity) attributable to unitholders as at 30 June	<u>554,151,762</u>	<u>569,102,209</u>

The accompanying notes 1 to 22 form integral part
of these condensed interim 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 2020

Expressed in Saudi Arabian Riyals

	Note	30 June 2020	30 June 2019
Net income for the period		1,776,596	9,918,292
Cash flow from operating activities			
<i>Adjustment for:</i>			
Depreciation	9	8,132,234	8,071,728
Impairment on rent receivables	8.1	1,500,000	--
Impairment on investment properties	9	6,263,811	--
Unrealised loss on derivative instruments at fair value through profit or loss	15	1,512,444	--
		<u>19,185,085</u>	<u>17,990,020</u>
Net changes in operating assets and liabilities:			
Rent receivables		(3,871,660)	2,171,066
Financial assets at amortised cost		--	(90,076,208)
Prepayments and other receivables		(826,264)	15,726,974
Investment properties		(1,697,240)	(780,346)
Due to related Parties		(1,370,405)	(13,517,507)
Accrued expenses and other payable		(867,254)	(984,917)
Deferred income		(3,223,165)	12,639,710
Net cash generated from / (used in) operating activities		<u>7,329,097</u>	<u>(56,831,208)</u>
Cash flow from financing activities			
Financing facility from a bank		3,299,989	739,972
Dividend paid during the period		(19,048,683)	(19,050,000)
Net cash used in financing activities		<u>(15,748,694)</u>	<u>(18,310,028)</u>
Net change in cash and cash equivalents:		(8,419,597)	(75,141,236)
Cash and cash equivalents at beginning of the period		34,534,020	111,955,644
Cash and cash equivalents at end of the period		<u><u>26,114,423</u></u>	<u><u>36,814,408</u></u>

The accompanying notes 1 to 22 form integral part of these condensed interim 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 2020

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 2020

Expressed in Saudi Arabian Riyals

2 BASIS OF PREPERATION

These condensed interim financial statements have been prepared for the six month period ended 30 June 2020 in accordance with requirement of IAS 34 “Interim Financial Reporting” that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants (“SOCPA”). These condensed interim financial statements should be read in conjunction with the fund’s last financial statement as at and for the year ended 31 December 2019.

These condensed interim financial statements do not include all the financial information and disclosure required in the annual financial statements in accordance with requirements of IFRS endorsed in Kingdom of Saudi Arabia and other standards pronouncements that are 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 except for derivative financial instruments measured at fair value through profit and loss statement.

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 (“SR”) which is the Fund’s functional and presentation currency.

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 2020

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

The accounting policies applied in these condensed interim financial statements are the same as those applied in the last annual 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 2020

Expressed in Saudi Arabian Riyals

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 *Financial instruments*

Initial recognition

Rent receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Fund becomes a party to the contractual provisions of the instrument.

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

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial Assets

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Fund enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the six month period ended 30 June 2020

Expressed in Saudi Arabian Riyals

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 *Financial instruments (continued)*

Derecognition (continued)

Financial liabilities

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Fund also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivative instruments at fair value through profit or loss

The Fund holds derivative financial instruments to hedge profit rate risk exposures. However, the Fund did not designate its derivative instruments as hedging instruments.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss. Fair values are obtained by reference to quoted market prices and/or valuation models as appropriate.

Impairment

The Fund recognises loss allowances for ECLs on financial assets measured at amortised cost. The Fund also recognises loss allowances for ECLs on lease receivables, which are disclosed as part of trade and other receivables.

The Fund measures loss allowances at an amount equal to lifetime ECLs.

Loss allowances for trade receivables (including lease receivables) and contract assets are always measured at an amount equal to lifetime ECLs.

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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 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.

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.

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6. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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7 ADMINISTRATION AND OTHER FEES (continued)

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.

8 RENT RECEIVABLES

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

	30 June <u>2020</u> (Unaudited)	31 December <u>2019</u> (Audited)
Rent receivables	12,540,313	8,668,653
Expected credit losses (Note 8.1)	<u>(2,534,221)</u>	<u>(1,034,221)</u>
	<u>10,006,092</u>	<u>7,634,432</u>

8.1 The movement in allowance for expected credit losses:

	<u>2020</u> (Unaudited)	<u>2019</u> (Audited)
Balance at 1 January	1,034,221	464,763
Charge for the year	1,500,000	569,458
Balance at 30 June / 31 December	<u>2,534,221</u>	<u>1,034,221</u>

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9 INVESTMENT PROPERTIES

9.1 The details of the investment properties as at June 30, 2020 is as follows.

	<u>Type</u>	<u>Location</u>	<u>Cost</u>			<u>Depreciation</u>			<u>Impairment</u>			<u>Net book value</u>	<u>Fair value</u>
			<u>Opening</u>	<u>Addition during the period</u>	<u>Closing</u>	<u>Opening</u>	<u>Charge for the period</u>	<u>Closing</u>	<u>Opening</u>	<u>Charge for the period</u>	<u>Closing</u>		
Khalidiyah Business Center	Commercial	Jeddah	148,984,706	--	148,984,706	3,679,809	1,049,321	4,729,130	--	3,567,576	3,567,576	140,688,000	140,688,000
Al Ajazzera Compound	Residential	Riyadh	67,572,046	--	67,572,046	921,069	264,761	1,185,830	--	--	--	66,386,216	67,840,000
Panda Jeddah	Commercial	Jeddah	39,300,000	--	39,300,000	489,206	139,500	628,706	--	--	--	38,671,294	39,825,000
Panda Riyadh	Commercial	Riyadh	78,765,000	--	78,765,000	987,090	281,475	1,268,565	--	--	--	77,496,435	81,600,000
Public prosecution building	Commercial	Jeddah	63,269,676	33,000	63,302,676	2,276,103	649,045	2,925,148	--	--	--	60,377,528	65,935,000
Al Rawda Business Center	Commercial	Jeddah	126,495,000	--	126,495,000	4,751,099	1,353,764	6,104,863	6,722,901	2,696,235	9,419,136	110,971,001	110,971,000
Burj AlHayat	Commercial	Riyadh	41,260,000	--	41,260,000	1,381,348	393,900	1,775,248	--	--	--	39,484,752	40,350,000
Saudi Fransi Building	Commercial	Dammam	28,519,294	--	28,519,294	644,185	223,931	868,116	--	--	--	27,651,178	27,885,000
Panda Al rayan	Commercial	Dammam	62,545,580	--	62,545,580	1,042,910	373,931	1,416,841	--	--	--	61,128,739	65,175,000
Alhokair Time	Commercial	Dammam	34,206,942	--	34,206,942	624,554	223,931	848,485	--	--	--	33,358,457	33,600,000
Ajdan Walk	Commercial	Al Khobar	356,274,715	--	356,274,715	6,310,774	3,178,675	9,489,449	--	--	--	346,785,266	357,000,000
Work in progress			2,576,115	1,664,240	4,240,355	--	--	--	--	--	--	4,240,355	--
			<u>1,049,769,074</u>	<u>1,697,240</u>	<u>1,051,466,314</u>	<u>23,108,147</u>	<u>8,132,234</u>	<u>31,240,381</u>	<u>6,722,901</u>	<u>6,263,811</u>	<u>12,986,712</u>	<u>1,007,239,221</u>	<u>1,030,869,000</u>

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9 INVESTMENT PROPERTIES (continued)

9.2 The details of the properties as at December 31, 2019

	Type	Location	Cost			Depreciation			Impairment			Net book value	Fair value
			Opening	Addition during the period	Closing	Opening	Charge for the period	Closing	Opening	Reversal for the period	Closing		
Khalidiyah Business Center	Commercial	Jeddah	148,984,706	--	148,984,706	1,581,168	2,098,641	3,679,809	--	--	--	145,304,897	151,321,000
Al Ajazzera Compound	Residential	Riyadh	67,465,000	107,046	67,572,046	394,757	526,312	921,069	--	--	--	66,650,977	69,860,000
Panda Jeddah	Commercial	Jeddah	39,300,000	--	39,300,000	210,206	279,000	489,205	--	--	--	38,810,794	39,800,000
Panda Riyadh	Commercial	Riyadh	78,765,000	--	78,765,000	424,140	562,950	987,090	--	--	--	77,777,910	81,600,000
Public prosecution building	Commercial	Jeddah	63,269,676	--	63,269,676	978,013	1,298,090	2,276,103	--	--	--	60,993,573	67,000,000
Al Rawda Business Center	Commercial	Jeddah	126,495,000	--	126,495,000	2,135,846	2,615,253	4,751,099	9,798,729	(3,075,828)	6,722,901	115,021,000	115,021,000
Burj AlHayat	Commercial	Riyadh	41,260,000	--	41,260,000	593,548	787,800	1,381,348	--	--	--	39,878,652	40,350,000
Saudi Fransi Building	Commercial	Dammam	28,519,294	--	28,519,294	196,323	447,862	644,185	--	--	--	27,875,109	28,100,000
Panda Al rayan	Commercial	Dammam	62,545,580	--	62,545,580	295,047	747,863	1,042,910	--	--	--	61,502,670	63,500,000
Alhokair Time	Commercial	Dammam	34,206,942	--	34,206,942	176,691	447,863	624,554	--	--	--	33,582,388	33,900,000
Ajdan Walk	Commercial	Al Khobar	354,722,215	1,552,500	356,274,715	--	6,310,774	6,310,774	--	--	--	349,963,941	357,000,000
Work in progress			--	2,576,115	2,576,115	--	--	--	--	--	--	2,576,115	--
			<u>1,045,533,413</u>	<u>4,235,661</u>	<u>1,049,769,074</u>	<u>6,985,739</u>	<u>16,122,408</u>	<u>23,108,147</u>	<u>9,798,729</u>	<u>(3,075,828)</u>	<u>6,722,901</u>	<u>1,019,938,026</u>	<u>1,047,452,000</u>

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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:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Equity as reported	554,151,762	561,523,849
Net appreciation in value based on valuation as on	23,629,779	27,513,974
Equity at fair value of investment properties	577,781,541	589,037,823
Equity per unit, at cost	9.2359	9.3587
Impact on equity per unit for the appreciation in value	0.3938	0.4586
Equity per unit at fair value	9.6297	9.8173

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 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.

The valuation of the investment properties as at June 30, 2020 and December 31, 2019 is carried out by Value Strat and White Cubes, which are accredited valuers by Saudi Authority for Accredited Valuers (TAQEEM). Key assumptions taken for valuation includes the rental income, occupancy rates, escalations, exit yield and discount rates, which were broadly in range with the assumptions taken in the valuations carried out as at December 31, 2019.

10 DIVIDEND PAYABLE

During the period ending 30 June 2020, the Fund declared a dividend amounting to SR 9.15 million (30 June 2019: SR 9.9 million). During the period, the Fund paid dividend amounting to SR 19 million (30 June 2019: 39.6 million).

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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>	Amount of transaction June 30, 2020 (Unaudited)	Amount of transaction June 30, 2019 (Unaudited)	Balance at June 30, 2020 (Unaudited)	Balance at December 31, 2019 (Audited)
<u>Due to related party</u>	Fund Manager	Management fees	2,945,189	3,010,409		
Saudi Economic and Development Securities Company (“Fund Manager”)		Admin fee	147,260	150,250		
		Shariah advisory fee	15,000	15,000		
		Reimbursement of fees paid on behalf of the fund	475,033	19,826,001	3,683,108	5,053,513
<u>Rent receivables</u>						
Al Mahmal Trading Company	Affiliate	Rent income	443,000	443,000	--	--
					260,452	--
<u>Accrued expenses and other payable</u>	(See note 12)					
Al Mahmal Trading Company	Affiliate	Property management and rent collection fees	2,283,784	4,336,971	12,985	1,050,873
Fund Board’s remuneration	Fund Board	Remuneration	30,000	30,000	--	--

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12 ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables at comprise of the following:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Security deposits	876,654	876,654
Custody fee payable	237,960	120,475
Valuation fee payable	110,621	62,785
Tadawul fees payable	95,000	95,000
Audit fee payable	37,500	36,250
Maintenance fee payable	12,985	1,050,873
Other payable	62,624	58,561
	<u>1,433,344</u>	<u>2,300,598</u>

13 DEFERRED REVENUE

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

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance at the beginning as at	5,033,571	2,664,013
Rent received during the period	4,622,131	23,310,250
Adjusted against revenue earned	(7,845,296)	(20,940,692)
	<u>1,810,406</u>	<u>5,033,571</u>

14 FINANCING FACILITY FROM A BANK

During the year ended 31 December 2018, the Fund has entered into a financing facility agreement 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 as it is under progress.

During the period ended 30 June 2020, the Fund has negotiated a reduced profit rate to six months Sibor + 1.45%. All other terms as per the original financing facility agreement remains the same. As at June 30, 2020, the Fund has an undrawn amount of SR 110 million.

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14 FINANCING FACILITY FROM A BANK (CONTINUED)

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

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Non-current liabilities	486,191,479	459,232,392
Current liabilities	1,667,765	25,326,863
	487,859,244	484,559,255

Current liabilities presented above include accrued profit on financing facility from a bank.

15 DERIVATIVE INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the period 30 June 2020, the Fund entered into two Profit Rate Swap (PRS) agreements with a commercial bank to swap its exposure to the variability in cash flows arising from variable portion of the agreed rate (Sibor) on financing facility obtained from a bank (Note 14). The maturity date of the instrument are 15 October 2023 and 16 October 2023 respectively. As at 30 June 2020, these derivative instruments have negative fair value.

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

	<u>30 June 2020</u>		<u>31 December 2019</u>	
	<u>Negative Fair Value</u>	<u>Notional Amount</u>	<u>Negative Fair Value</u>	<u>Notional Amount</u>
Swap 1				
Nominal loan amount	(487,880)	250,000,000	--	--
Profit Rate Swap	1.23%	1.43%	--	--
Swap 2				
Nominal loan amount	(1,024,564)	240,000,000	--	--
Profit Rate Swap	1.23%	1.69%	--	--

Movement in derivative financial instruments is as follows:

	2020 (Unaudited)	2019 (Audited)
Change in fair value and balance at 30 June	1,512,444	--

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16 UNITS IN ISSUE

The Fund has issued 60 million units and during the period there was no movement in the number of units.

17 OPERATING AND OTHER EXPENSES

Operating and other expenses comprise of the following:

	June 30, <u>2020</u> (Unaudited)	June 30 <u>2019</u> (Unaudited)
Operating expenses	2,529,521	3,034,280
Tadawul and edaa fees	275,033	175,178
Professional fees	121,890	104,335
Custody fees	117,485	30,829
Board fees	30,000	30,000
Other expenses	548,385	247,883
	<u>3,622,314</u>	<u>3,622,505</u>

18 FINANCIAL RISK MANAGEMENT

18.1 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

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18 FINANCIAL RISK MANAGEMENT (CONTINUED)

18.1 Financial risk factors (continued)

(a) Market risk (continued)

(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 and profit rate swap, which is at floating rate of interest and is subject to re-pricing on a regular basis.

(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:

Maximum exposure to credit risk at the reporting date:

	June 30 <u>2020</u> (Unaudited)	December 31, <u>2019</u> (Audited)
<u>Assets</u>		
Cash and cash equivalents	26,114,423	34,534,020
Rent receivables (See note 8)	12,540,313	8,668,653
	<u>38,654,736</u>	<u>49,368,351</u>

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18 FINANCIAL RISK MANAGEMENT (CONTINUED)

18.1 Financial risk factors (continued)

(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.

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

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18 FINANCIAL RISK MANAGEMENT (CONTINUED)

18.1 Financial risk factors (continued)

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

<u>Financial liabilities</u>	As at June 30, 2020						As at December 31, 2019					
	<u>On demand</u>	<u>Less than 3 months</u>	<u>Less than 1 year</u>	<u>More than 1 year</u>	<u>Contractual liability</u>	<u>Carrying amount</u>	<u>On demand</u>	<u>Less than 3 months</u>	<u>Less than 1 year</u>	<u>More than 1 year</u>	<u>Contractual liability</u>	<u>Carrying amount</u>
Dividends payable	--	--	--	--	--	--	--	--	--	--	9,900,000	9,900,000
Derivative instruments at fair value through profit or loss	--	--	1,512,444	--	1,512,444	1,512,444	--	--	--	--	--	--
Due to related parties	--	3,683,108	--	--	3,683,108	3,683,108	--	5,053,513	--	--	5,053,513	5,053,513
Accrued expenses and other payable	--	1,433,344	--	--	1,433,344	1,433,344	--	2,300,598	--	--	2,300,598	2,300,598
Deferred revenue	--	1,810,406	--	--	1,810,406	1,810,406	--	5,033,571	--	--	5,033,571	5,033,571
Financing facility from a bank	--	--	1,667,765	486,191,479	487,859,244	487,859,244	--	--	25,326,863	459,232,392	484,559,255	484,559,255
	--	6,926,858	3,180,209	486,191,479	496,298,546	496,298,546	--	12,387,682	25,326,863	459,232,392	506,846,937	506,846,937

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the six month period ended 30 June 2020

Expressed in Saudi Arabian Riyals

18 FINANCIAL RISK MANAGEMENT (continued)

18.1 Financial risk factors (continued)

(a) 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.

18.2 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.

Fair values of financial instruments

The Fund is exposed to risks as a result of using financial instruments. The following explains the Fund's objectives, policies and operations to manage these risks and methods used to measure them in addition to quantitative information related to these risks in the accompanying financial statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the six month period ended 30 June 2020

Expressed in Saudi Arabian Riyals

18 FINANCIAL RISK MANAGEMENT (continued)

18.2 Fair value estimation

There were no significant changes that may expose the Fund to financial instrument risks through its objectives, policies and operations to manage these risks and methods used that are different from what have been used in prior years unless otherwise indicated.

The Fund's management considers the fair value for loan, balances of related parties, rent receivables, derivative instruments at fair value through profit or loss, accruals and other payables approximate to their carrying value because of the short terms of financial instruments.

There were no transfers between level 1, 2 or 3 during the reporting period. Financial instruments are exposed to change in value risk as a result of changes in commission rates of the financial assets and liabilities with variable commission. Actual commission rate and period of re-pricing or maturity of financial assets and liabilities were mentioned in the related notes.

19 STANDARDS ISSUED BUT NOT YET EFFECTIVE

New currently effective requirements: This table lists the recent changes to the standards that are required to be applied by an entity with an annual reporting beginning on 1 January 2020.

Effective date	New standards or amendments
1 January 2020	Amendments to References to Conceptual Framework in IFRS standards
	Definition of a Business Combination (Amendments to IFRS 3)
	Definition of Material (Amendments to IAS 1 and IAS 8)
	Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The management believes that the above pronouncement have no material impact on these condensed interim financial statements.

Forthcoming requirements:

Effective date	New standards or amendments
1 January 2023	IFRS 17 Insurance Contracts
1 January 2023	Classification of liabilities as Current or Non-current (Amendments to IAS1)
Available for optional adoption / effective date deferred indefinitely	Sales or Contributions of Assets between an Investor and its Associates or Joint Venture (Amendments to IFRS 10 and IAS 28)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

For the six month period ended 30 June 2020

Expressed in Saudi Arabian Riyals

20 SUBSEQUENT EVENTS

The spread of novel coronavirus (COVID-19) across multiple geographies was confirmed in early 2020, causing disruptions to businesses and economic activities. Due to this some of the Fund's investment properties were impaired for which the corresponding impact was taken in these financial statements. However, since the extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, the Fund manager will continue to monitor the situation with focus on availability of sufficient cash balances to the Fund and accordingly update unitholders for material deviations. Changes in circumstances may require enhanced disclosures or recognition of adjustments in the financial statements of the Fund subsequently.

21 LAST VALUATION DAY

The last valuation day of the period was 30 June 2020 (2019: 31 December 2019).

22 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Fund Board on 15 Dhul-Hijjah 1441H, corresponding to 5 August 2020.

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.
- There were no material changes that occurred during the period and affected the performance of the Fund.
- The Fund Manager has not waived or rebated any fees.

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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



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