

SEDCO CAPITAL REIT FUND
(Managed by Sedco Capital Company)

FINANCIAL STATEMENTS
For the year ended December 31, 2019
with
INDEPENDENT AUDITOR'S
REPORT TO THE UNITHOLDERS



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

Independent auditor's report

To the unitholders of Sedco Capital REIT Fund

Opinion

We have audited the financial statements of SEDCO Capital REIT FUND (the "Fund"), managed by SEDCO Capital Company (the "Fund Manager"), which comprise the statement of financial position as at December 31, 2019, and the related statements of comprehensive income, changes in equity attributable to unitholders and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed in our audit
<p>Revenue:</p> <p>Revenue from properties amounted to SR 76.8 million for the year ended December 31, 2019.</p> <p>Generally revenue from properties is recognized on a straight line basis over a lease term.</p> <p>These include spreading of tenant incentives and guaranteed increases. These balances require adjustments made to lease rental income to ensure that is recorded on a straight line basis over the lease term in accordance with IFRS 16: "Leases".</p>	<p>Revenue:</p> <p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> ▪ evaluating the appropriateness of the lease rental income recognition policy to assess whether it is in accordance with IFRS 16: "Leases". ▪ assessing the design and implementation of management's key internal controls over the completeness, existence and accuracy of lease rental income with specific focus on whether lease rental income is appropriately recorded over the lease term as per the terms of the lease contract.



Independent auditors' report

To the unitholders of Sedco Capital REIT Fund (continued)

Key Audit Matters (continued)	
The Key audit matter	How the matter was addressed in our audit
<p>Revenue: (continued)</p> <p>Revenue recognition is considered a key audit matter in view of the risk that management may override controls to intentionally misstate revenue transactions in order to achieve financial targets, either through adjusting estimates at the period end or recording fictitious transactions in the business.</p> <p>Investment properties:</p> <p>As at December 31, 2019, the carrying value of investment properties held by the Fund was SR 1,019.94 million.</p> <p>The investment properties are stated measured at cost on initial recognition and subsequently at cost less accumulated depreciation and impairment losses, if any. However, the fair value of the investment property is disclosed along with its impact on equity per unit.</p> <p>In accordance with the requirements of relevant accounting standards, the Fund is required to assess indicators of impairment on its properties at each reporting date. In case such indicators are identified, the recoverable amount of such property is required to be determined.</p> <p>As part of its assessment of impairment indicators, the Fund reviews both the internal and external indicators of impairment including but not limited to net cash outflows or operating losses, physical wear and tear of assets and adverse market changes or conditions. Moreover, the assessment of recoverable amounts entails the use of complex valuation techniques and significant management judgement on key assumptions. Accordingly, this has been identified as a key audit matter.</p>	<p>Revenue: (continued)</p> <ul style="list-style-type: none"> ▪ performing detailed testing on a sample basis of lease rental income transactions to review the lease contracts entered into with customers to assess whether lease rental income recorded is as per the contract terms and to identify any non-standard lease clauses and to assess the appropriateness of the rental income accounting. ▪ performing detailed substantive analytical procedures of lease rental income and the timing of its recognition. ▪ assessing the appropriateness and completeness of the disclosures required for the revenue from investment properties. <p>Investment properties:</p> <p>Our audit procedures in response to the assessed risk of material misstatement in valuation of investment properties comprised of:</p> <ul style="list-style-type: none"> ▪ obtaining an understanding of the management processes for identification and mitigation of valuation risk; ▪ perform test of details on the costs capitalized and ensure that all costs are appropriately capitalized; ▪ assess the appropriateness and completeness of factors considered by the Fund Manager in impairment indicator assessments; and ▪ for investment properties where there are impairment indicators, we perform the following procedures: <ul style="list-style-type: none"> - obtain the valuation reports prepared by independent valuers and evaluate the appropriateness of the critical assumptions including discount rate, exit yield rate, annual rental income, operating expenditure, occupancy, escalations and inflation rates. Further, perform sensitivity analysis, including assessment of the effect of reasonably possible reductions in occupancy and increases in operating expenditures on the forecasted cash flows to evaluate the impact; and - evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions and judgements.



Independent auditors' report

To the unitholders of Sedco Capital REIT Fund (continued)

Responsibilities of Fund Manager and Those Charged With Governance for the Financial Statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of SEDCO Capital REIT Fund ("the Fund").



Independent auditors' report

To the unitholders of Sedco Capital REIT Fund (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For KPMG Al Fozan & Partners
Certified Public Accountants

Nasser Ahmed Al Shutairy
License No. 454

Jeddah, Rajab 29, 1441H
Corresponding to March 24, 2020



SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

STATEMENT OF FINANCIAL POSITION

As at December 31, 2019

Expressed in Saudi Arabian Riyals

	Notes	December 31, 2019	December 31, 2018
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents		34,534,020	111,955,644
Rent receivable	8	7,634,432	15,219,300
Prepayments and other receivables		<u>6,264,308</u>	<u>22,557,940</u>
Total current assets		48,432,760	149,732,884
Non-current assets			
Investment properties	9	<u>1,019,938,026</u>	<u>1,028,748,945</u>
Total assets		<u>1,068,370,786</u>	<u>1,178,481,829</u>
<u>LIABILITIES</u>			
Current Liabilities			
Payable for the acquisition of investment property	9.6	--	69,000,000
Dividends payable	10	9,900,000	9,150,000
Due to related parties	11	5,053,513	17,016,343
Accrued expenses and other payables	12	2,300,598	3,326,670
Deferred revenue	13	5,033,571	2,664,013
Financing facility from a bank	14	<u>25,326,863</u>	<u>22,178,566</u>
Total current liabilities		47,614,545	123,335,592
Non-current liabilities			
Financing facility from a bank	14	<u>459,232,392</u>	<u>476,162,320</u>
Total liabilities		<u>506,846,937</u>	<u>599,497,912</u>
Net asset (equity) attributable to unitholders		<u>561,523,849</u>	<u>578,983,917</u>
Units in issue (number)	15	<u>60,000,000</u>	<u>60,000,000</u>
Net asset (equity) per unit (SAR)	9.4	<u>9.3587</u>	<u>9.6497</u>

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

S. Alhadi

11.12

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2019
Expressed in Saudi Arabian Riyals

INCOME	<u>Notes</u>	For the year ended December 31, 2019	For the period from April 1, 2018 to December 31, 2018
Rental income		76,802,347	37,555,977
Murabaha income		1,251,053	--
		<u>78,053,400</u>	<u>37,555,977</u>
EXPENSES			
Depreciation	9	16,122,408	6,985,739
Management, administrative and shariah fees	7&11	6,310,671	4,709,722
Operating and other expenses	16	9,592,563	7,285,090
(Reversal) / impairment on investment properties	9	(3,075,828)	9,798,729
Financing fees and charges	14	26,963,654	2,342,780
Total expenses		<u>55,913,468</u>	<u>31,122,060</u>
Net profit for the year / period		<u>22,139,932</u>	<u>6,433,917</u>
Total comprehensive income for the year / period		<u>22,139,932</u>	<u>6,433,917</u>

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

S. Al-Ahmed

(Signature)

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO UNITHOLDERS

For the year ended December 31, 2019

Expressed in Saudi Arabian Riyals

	For the period / year ended <u>December 31,</u>
Net assets (equity) attributable to Unitholders at the beginning of the period	--
Proceeds from initial subscription of units (See note 15)	600,000,000
Comprehensive income for the period ended December 31, 2018	6,433,917
Dividends	<u>(27,450,000)</u>
Net asset (equity) attributable to unitholders as at December 31, 2018	578,983,917
Total comprehensive income for the year ended December 31, 2019	22,139,932
Dividends	(39,600,000)
Net asset (equity) attributable to unitholders as at December 31, 2019	<u><u>561,523,849</u></u>

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

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

STATEMENT OF CASH FLOWS
For the year ended December 31, 2019
Expressed in Saudi Arabian Riyals

	Notes	For the year ended December 31, 2019	For the period from April 1, 2018 to December 31, 2018
Net profit for the year / period		22,139,932	6,433,917
Cash flow from operating activities:			
<i>Adjustment for:</i>			
Depreciation	9	16,122,408	6,985,739
(Reversal) / Impairment	9	(3,075,828)	9,798,729
		<u>35,186,512</u>	<u>23,218,385</u>
Net changes in operating assets and liabilities:			
Rent receivable		7,584,868	(15,219,300)
Prepayments and other receivables		16,293,632	(22,557,940)
Payments made for the acquisition of investment properties		(73,235,661)	(976,533,413)
Due to related parties		(11,962,830)	17,016,343
Accrued expenses and other payables		(1,026,072)	3,326,670
Deferred income		2,369,558	2,664,013
Financing facility from a bank		(13,781,631)	498,340,886
		<u>(38,571,624)</u>	<u>(469,744,356)</u>
Net cash used in operating activities			
Cash flow from financing activities:			
Proceeds from initial subscription of units	15	--	600,000,000
Dividend paid during the year / period	10	(38,850,000)	(18,300,000)
Net cash (used in) / generated from financing activities		<u>(38,850,000)</u>	<u>581,700,000</u>
Net change in cash and cash equivalents:		(77,421,624)	111,955,644
Cash and cash equivalents at beginning of the year		111,955,644	--
Cash and cash equivalents at end of the year / period		<u>34,534,020</u>	<u>111,955,644</u>

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

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

Expressed in Saudi Arabian Riyals

1 THE FUND AND ITS ACTIVITIES

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

SEDCO Capital, a Saudi closed joint stock company licensed by the Capital Market Authority ("CMA") under License No. 11157-37 dated 23/04/1430 H corresponding to 19/4/2009, manages the Fund. The Fund Manager conducts following securities activities:

- a) Dealing;
- b) Arranging;
- c) Managing;
- 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 up to 25% of the fund's total assets in public money market funds and Murabaha deposits.

The terms and conditions of the Fund were approved by the Capital Market Authority (the "CMA") on 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 a 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.

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

Expressed in Saudi Arabian Riyals

2 BASIS OF ACCOUNTING

These financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (“SOCPA”) and to comply with the applicable provisions of the Investment Funds Regulations issued by Capital Market Authority, the Fund’s terms and conditions and the Information Memorandum.

3 BASIS OF MEASUREMENT

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

4 FUNCTIONAL AND PRESENTATION CURRENCY

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

Transactions and balances

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

5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires the Fund Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected. The significant accounting judgments and estimates applied in the preparation of these financial statements are as follows:

Useful lives of investment properties

The Fund Manager determines the estimated useful lives of investment properties for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Fund Manager reviews the residual value and useful lives annually, and changes in depreciation charges, if any, are adjusted in current and future periods.

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

Expressed in Saudi Arabian Riyals

5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Impairment of investment properties

At each reporting date, the Fund Manager reviews the carrying amounts of investment properties to determine if there is any indication of impairment. If any such indication exists, then the investment properties' recoverable amount is estimated using independent valuers.

The recoverable amount of an investment property is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the property. In the process of determining the value in use based on the estimated future cash flows, the management also performs sensitivity analysis, which includes assessing the effect of reasonably possible reductions in occupancy and increases in operating expenditures on the forecasted cash flows to evaluate the impact on the currently estimated headroom for the investment properties.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in statement of comprehensive income.

Impairment of financial assets

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

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

6 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the last annual financial statements.

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

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

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

Expressed in Saudi Arabian Riyals

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 *Financial instruments*

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

Initial recognition

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

Derecognition

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

Subsequent measurement

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

6.3 *Investment properties*

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

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

6.4 *Accrued expenses and other payables*

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

6.5 *Provisions*

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

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

Expressed in Saudi Arabian Riyals

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

6.6 *Financing*

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

6.7 *Revenue recognition*

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

Income from murabaha placements is recognized using the effective profit rate over the period of the contract.

6.8 *Zakat and income tax*

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

6.9 *Dividend payable*

Interim and final dividends are recorded as a 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.

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

Expressed in Saudi Arabian Riyals

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 comprehensive 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 a performance fee with respect to 20% of any cash dividend distributions in excess of 7% annually and 10% of any realized capital gain from the sale of real estate assets.

Financing arrangement fees

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

Brokerage fee and acquisition fee

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

Custody fee

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

SEDCO CAPITAL REIT FUND
(Managed by SEDCO Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

Expressed in Saudi Arabian Riyals

7. ADMINISTRATION AND OTHER FEES (continued)

Edaa fees

The depository company is entitled to receive a fee for creating the unitholder register (SAR 50,000 plus 2 SAR for each unit holder, not to exceed SAR 500,000) and for managing the unitholder register (SAR 400,000) annually.

Tadawul fee

Tadawul is entitled to receive a one-time fee for listing of the Fund equal to 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 RECEIVABLE

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

	December 31, <u>2019</u>	December 31, <u>2018</u>
Related party (See note 11)	--	355,761
Other tenants	<u>8,668,653</u>	<u>15,328,302</u>
	8,668,653	15,684,063
Expected credit losses	<u>(1,034,221)</u>	<u>(464,763)</u>
	<u>7,634,432</u>	<u>15,219,300</u>

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9. INVESTMENT PROPERTIES

The details of the properties as at December 31, 2019 is as follows:

	Type	Location	Opening cost	Addition during the year	Closing cost	Opening depreciati on	Opening impairment	Depreciation during the year	Impairment reversal during the year	Closing depreciation	Closing Impairment	Net book value	Fair value
Khalidiyah Business Center (See 9.3)	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 (See 9.3)	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	--	489,206	--	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 (See 9.3)	Commercial	Jeddah	126,495,000	--	126,495,000	2,135,846	(9,798,729)	2,615,253	3,075,828	4,751,099	(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 (See 9.3)	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>(9,798,729)</u>	<u>16,122,408</u>	<u>3,075,828</u>	<u>23,108,147</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)

The details of the properties as at December 31, 2018 is as follows:

	<u>Type</u>	<u>Location</u>	<u>Cost of acquisition</u>	<u>Addition</u>	<u>Depreciation</u>	<u>Impairment</u>	<u>Net book value</u>	<u>Fair value</u>
Khalidiyah Business Center (See 9.3)	Commercial	Jeddah	148,645,000	339,706	1,581,168	--	147,403,538	154,177,368
Al Ajazzera Compound (See 9.3)	Residential	Riyadh	67,465,000	--	394,757	--	67,070,243	67,658,524
Panda Jeddah	Commercial	Jeddah	39,300,000	--	210,206	--	39,089,794	39,800,000
Panda Riyadh	Commercial	Riyadh	78,765,000	--	424,140	--	78,340,860	81,600,000
Al Harmeen	Commercial	Jeddah	63,015,000	254,676	978,013	--	62,291,663	65,500,000
Al Rawda Business Center (See 9.3)	Commercial	Jeddah	126,495,000	--	2,135,846	(9,798,729)	114,560,425	116,678,704
Burj AlHayat	Commercial	Riyadh	41,260,000	--	593,548	--	40,666,452	41,035,000
Saudi Fransi Building	Commercial	Dammam	28,519,294	--	196,323	--	28,322,971	28,350,000
Panda Al rayan	Commercial	Dammam	62,545,580	--	295,047	--	62,250,533	68,000,000
Alhokair Time	Commercial	Dammam	34,206,942	--	176,691	--	34,030,251	34,325,000
Ajdan Walk	Commercial	Al Khobar	354,722,215	--	--	--	354,722,215	354,722,215
			<u>1,044,939,031</u>	<u>594,382</u>	<u>6,985,739</u>	<u>(9,798,729)</u>	<u>1,028,748,945</u>	<u>1,051,846,811</u>

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9. INVESTMENT PROPERTIES (continued)

- 9.3 For the period ended December 31, 2019, the Fund recorded a reversal in impairment loss amounting to SR 3 million (December 31, 2018: an impairment loss amounting to SR 9.8 million).

The impairment on this investment property is determined based on the valuation by two independent valuers (refer 9.5). Key assumptions taken for valuation includes the rental income, occupancy rates, escalations, exit yield and discount rates, which were broadly in range with the assumptions taken in the valuations carried out as at December 31, 2018. Accordingly, no impairment charge has been taken during the year ended December 31, 2019.

- 9.4 At the reporting date, had the investment properties been carried at their respective fair values, the net asset value and per unit value of the Fund would have been as follows:

	December 31, 2019	December 31, <u>2018</u>
Equity as reported	561,523,849	578,983,917
Net appreciation in value based on valuation as at	<u>27,513,974</u>	<u>23,097,866</u>
Equity at fair value of investment properties	589,037,823	602,081,783
Equity per unit, at cost	9.3587	9.6497
Impact on equity per unit for the appreciation in value	0.4586	0.3850
Equity per unit at fair value	9.8173	10.0347

- 9.5 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 independent valuers to assess an impairment in the carrying value of any property. However, in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia, investments in real estate properties are carried at cost less accumulated depreciation less impairment in these financial statements. Impairments are recorded for other than temporary declines in the fair value of the respective properties below carrying values. The valuations of the investment properties as at December 31, 2019 were carried out by Value Strat and White Cubes, which are accredited valuers by Saudi Authority for Accredited Valuers (TAQEEM).
- 9.6 At December 31, 2018, SR 69 million was payable for acquisition of Ajdan Walk property. It was fully settled during 2019.

10. DIVIDEND PAYABLE

During the year ended December 31, 2019, Fund declared cash dividends amounting SR 39.6 million (2018: SR 27.45 million). During the year ended, the Fund paid an amount of SR 38.85 million (2018: SR 18.3 million) to Unitholders and SR 9.9 million was also distributed subsequently to year end.

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11 RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions comprise of transactions with the Fund Manager and other affiliates of SEDCO Capital in the ordinary course of business, undertaken on mutually agreed terms. All related party transactions are approved by the Fund Board. Significant related party transactions are summarized below:

<u>Related party</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>Amount of transaction 2019</u>	<u>Amount of transaction, 2018</u>	<u>Balance at 2019</u>	<u>Balance at 2018</u>
<u>Due to related party</u>						
Saudi Economic and Development Securities Company ("Fund Manager")	Fund Manager	Management fees	5,981,591	4,464,019		
		Admin fees	299,080	223,201		
		Shariah advisory	30,000	22,500		
		Financing arrangement fee	--	7,500,992		
		Brokerage and acquisition fee	1,552,500	--		
		Reimbursement of fees paid on behalf of the fund	19,826,001	204,295	<u>5,053,513</u>	<u>17,016,343</u>
<u>Rent Receivable</u> (See note 8)						
Al Mahmal Trading Company	Affiliate	Rent income	886,000	658,227	<u>--</u>	<u>355,761</u>
<u>Accrued expenses and other payable</u>						
Al Mahmal Trading Company	(See note 12) Affiliate	Property Management and rent collection fees	4,336,971	4,645,765	<u>1,050,873</u>	<u>1,709,311</u>
Fund Board's remuneration	Fund Board	Remuneration	60,000	45,000	<u>--</u>	<u>--</u>

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12 ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables at comprise of the following:

	December 31, 2019	December 31, 2018
Maintenance fee payable (note 11)	1,050,873	1,709,311
Security deposits	876,654	1,033,904
Custody fee payable	120,475	207,938
Tadawul fees payable	95,000	95,000
Valuation fee payable	62,785	61,500
Audit fee payable	36,250	40,000
Other payable	58,561	179,017
	<u>2,300,598</u>	<u>3,326,670</u>

13 DEFERRED REVENUE

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

	December 31, 2019	December 31, 2018
Balance at the beginning as at	2,664,013	--
Rent received during the year / period	23,310,250	12,091,465
Adjusted against revenue earned	<u>(20,940,692)</u>	<u>(9,427,452)</u>
Balance at the end as at	<u>5,033,571</u>	<u>2,664,013</u>

14 FINANCING FACILITY FROM A BANK

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 process. As at December 31, 2019, the Fund has an undrawn amount of SR 110 million.

Fund has booked financing charges based on effective interest method amounting to SR 26.96 million (2018: SR 2.3 million).

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

	December 31, 2019	December 31, 2018
Non-current liabilities	459,232,392	476,162,320
Current liabilities	<u>25,326,863</u>	<u>22,178,566</u>
	<u>484,559,255</u>	<u>498,340,886</u>

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15 UNITS IN ISSUE

The Fund has issued 60 million units at the price of SR 10 per unit. During the year there was no movement in number of units.

16 OPERATING EXPENSES AND OTHER EXPENSES

Operating expenses and other expenses comprise of the following:

	For the year ended December 31, <u>2019</u>	For the period from April 1, 2018 to December 31, <u>2018</u>
Operating expenses	7,131,517	4,747,322
Professional fees	362,873	695,108
Tadawul and edaa fees (note 7)	540,460	489,395
ECL impairment	569,458	464,763
Custody fees (note 7)	211,871	207,938
Board fees	60,000	45,000
Other expenses	716,384	635,564
	<u>9,592,563</u>	<u>7,285,090</u>

17 FINANCIAL RISK MANAGEMENT

17.1 Financial risk factors

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

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

Monitoring and controlling risks is primarily set up to be performed based on the limits established by the Fund Board. The Fund has its Terms and Conditions document that set out its overall business strategies, its tolerance of risks and its general risk management philosophy and is obliged to take actions to rebalance the portfolio in line with the investment guidelines. The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

(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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17 FINANCIAL RISK MANAGEMENT (continued)

17.1 Financial risk factors (continued)

(a) Market risk

(ii) Commission rate risk

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

The Fund's commission rate risks arise mainly from its financing facility from a bank, which is at floating rate of interest and is subject to re-pricing on a regular basis.

Commission rate sensitivity

As at December 31, 2019, it is estimated that a general increase / decrease of 100 basis points in floating interest rates on financing facility, with all other variables held constant, would increase / decrease the Fund's equity by approximately SR 5.6 million (2018: SR 5.8 million).

(iii) Price risk

Price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements. The price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds. As of the date of statement of financial position, the fund is not materially exposed to price risk.

(b) Credit risk

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

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

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

Maximum exposure to credit risk at the reporting date:

	December 31, 2019	December 31, 2018
<u>Assets</u>		
Cash and cash equivalents	34,534,020	111,955,644
Rent receivable (See note 8)	<u>7,634,432</u>	<u>15,219,300</u>
	<u>42,168,452</u>	<u>127,174,944</u>

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17 FINANCIAL RISK MANAGEMENT (continued)

17.1 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. As at December 31, 2019, the Fund has an unutilized credit facility from bank a amounting to SR 110 million (December 31, 2018: SR 95 million).

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17 FINANCIAL RISK MANAGEMENT (continued)

17.1 Financial risk factors (continued)

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

Financial liabilities	As at December 31, 2019						As at December 31, 2018					
	On demand	Less than 3 months	Less than 1 year	More than 1 year	Contractual liability	Carrying amount	On demand	Less than 3 months	Less than 1 year	More than 1 year	Contractual liability	Carrying amount
Payable for the acquisition of investment property	--	--	--	--	--	--	--	69,000,000	--	--	69,000,000	69,000,000
Dividends payable	--	--	--	--	9,900,000	9,900,000	--	9,150,000	--	--	9,150,000	9,150,000
Due to related parties	--	5,053,513	--	--	5,053,513	5,053,513	--	17,016,343	--	--	17,016,343	17,016,343
Accrued expenses and other payable	--	2,300,598	--	--	2,300,598	2,300,598	--	3,326,670	--	--	3,326,670	3,326,670
Deferred revenue	--	5,033,571	--	--	5,033,571	5,033,571	--	2,664,013	--	--	2,664,013	2,664,013
Financing facility from a Bank	--	--	25,326,863	459,232,392	484,559,255	484,559,255	--	--	22,178,566	476,162,320	498,340,886	498,340,886
Total undiscounted financial liabilities	--	12,387,682	25,326,863	459,232,392	506,846,937	506,846,937	--	101,157,026	22,178,556	476,162,320	599,497,912	599,497,912

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17 FINANCIAL RISK MANAGEMENT (continued)

17.1 Financial risk factors (continued)

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities, either internally or externally at the Fund's service provider, and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to unitholders.

17.2 Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of a financial asset or a financial liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All financial assets and financial liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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18 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

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

19 LAST VALUATION DAY

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

20 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Fund Board on 24 Rajab 1441H, corresponding to March 19, 2020.