**SICO SAUDI REIT FUND**
**A Real Estate Investments Traded Fund**
**MANAGED BY SICO CAPITAL**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 AND INDEPENDENT AUDITOR'S REPORT**

# SICO SAUDI REIT FUND
## A Real Estate Investments Traded Fund
**MANAGED BY SICO CAPITAL**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**
**AND INDEPENDENT AUDITOR'S REPORT**

# INDEPENDENT AUDITOR'S REPORT

## TO THE UNITHOLDERS' OF SICO SAUDI REIT FUND (MANAGED BY SICO CAPITAL)



## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the SICO SAUDI REIT FUND (the "Fund") as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants (SOCPA).

We have audited the financial statements of the Fund, which comprise of the following:

- The statement of financial position as at 31 December 2022;
- The statement of comprehensive (loss) / income for the year then ended;
- The statement of changes in net assets (equity) for the year then ended;
- The statement of cash flows for the year then ended, and;
- The notes to the financial statements, including a summary of significant accounting policies.

### BASIS FOR OPINION

We conducted our audit in accordance with Intenational Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent from 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 of the current year. 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.

## INDEPENDENT AUDITOR'S REPORT

## TO THE UNITHOLDERS' OF SICO SAUDI REIT FUND (MANAGED BY SICO CAPITAL)



## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### KEY AUDIT MATTERS (Continued)

| Key Audit Matters | How our audit addressed the key audit matter |
|---|---|
| **Investment Property** | |
| SICO Saudi REIT Fund owns a portfolio of investment properties comprising of commercial buildings located in the Kingdom of Saudi Arabia.<br><br>Investment properties are held for capital appreciation and / or rental yields, are stated at cost less accumulated depreciation and any impairment losses.<br><br>Investment properties are re-measured for impairment losses whenever events or changes in circumstances indicate that the carrying amount of may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount.<br><br>For assessing the impairment of investment properties, the Fund manager monitors volatility of fair value of properties by engaging independent certified property valuers to perform properties on semiannual basis.<br><br>We considered this as a key audit matter since the assessment of impairment requires significant judgement by the Fund manager and the potential impact of impairment if any, could be material to the financial statements. | For impairment of investment properties, we have carried out the following audit procedures:<br><br>- We obtained two valuation reports from independent real estate evaluators Taqeem certified for each investment properties as at 31 December 2022 and confirmed that the valuation approaches are suitable for use in determining the fair values as at the reporting date;.<br>- We assessed the independence of external valuers and read their of engagement with the Fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitation on their work;.<br>- We performed input testing on the key assumptions such as discount rate, exit yield rate, annual rental income, operating expenditure and occupancy, used by the real estate valuation experts in determining the fair values of the investment properties;<br>- Assessed the recoverable amount, which is higher of fair value or value in use of the related investment properties as per the above mentioned valuation reports. We have deteremined that the recoverable amount of the investment properties to be lower than the carrying amount of the same;and<br>- We reconciled the average fair value of the investment properties as per the note 10 to the external valuers report. |

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS' OF SICO SAUDI REIT FUND (MANAGED BY SICO CAPITAL)



## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Other Information

Other information consists of the information included in the Fund's 2022 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

### RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Fund's Management is responsible for the preparation and fair presentation of the financial statements 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 SOCPA and for such internal control as management 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, management 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 management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e. the Fund Manager, is responsible for overseeing the Fund's financial reporting process

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS' OF SICO SAUDI REIT FUND (MANAGED BY SICO CAPITAL)



REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

## AUDITOR'S 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 auditor's 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 the 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Fund's 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.

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INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS' OF SICO SAUDI REIT FUND (MANAGED BY SICO CAPITAL)



REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 year and are therefore the key audit matters. We describe these matters in our auditor's 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 Al-Bassam & Co.

البسام وشركاؤه
محاسبون قانونيون
رقم الترخيص ٥٢٠/١١/٣٢٣
C.R.1010385804
license 520/11/323
Al-Bassam & Co.
Certified Public Accountants

Ibrahim A. Al Bassam
Certified Public Accountant
License No. 337
Riyadh: 08 Ramadan 1444H
Corresponding to: 30th March 2023

# SICO SAUDI REIT FUND
## A Real Estate Investments Traded Fund
### MANAGED BY SICO CAPITAL

**STATEMENT OF FINANCIAL POSITION**
**As at 31 December 2022**
**(Amounts in Saudi Riyals)**

| | | As at 31 December | |
|---|---|---|---|
| | **Notes** | **2022** | 2021 |
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | **5,408,081** | 11,013,952 |
| Investments carried at fair value through profit or loss (FVTPL) | 8 | **1,501,911** | 4,138,964 |
| Rent receivable | 9 | **17,967,973** | - |
| Prepayment and other assets | | **7,010,174** | 428,747 |
| Investment properties | 10 | **545,238,000** | 638,585,000 |
| **TOTAL ASSETS** | | **577,126,139** | 654,166,663 |
| **LIABILITIES** | | | |
| Accrued expenses and other liabilities | | **17,044,544** | 699,055 |
| Unearned rental income | 9 | **-** | 1,411,806 |
| Islamic Financing | 12 | **149,891,640** | 149,891,640 |
| **TOTAL LIABILITIES** | | **166,936,184** | 152,002,501 |
| **NET ASSETS (EQUITY) VALUE** | | **410,189,955** | 502,164,162 |
| **UNITS IN ISSUE** *(Number)* | | **57,240,000** | 57,240,000 |
| **PER UNIT VALUE** | | **7.17** | 8.77 |
| **PER UNIT FAIR VALUE** | 14 | **7.17** | 8.77 |

The accompanying notes 1 to 24 form an integral part of these financial statements.

## STATEMENT OF COMPREHENSIVE (LOSS) / INCOME
**For the year ended 31 December 2022**
**(Amounts in Saudi Riyals)**

| | Note | 2022 | 2021 |
|---|---|---|---|
| Rentals from investment properties | 9 | **36,786,301** | 15,048,014 |
| Net realized and unrealized (loss) / gain from investments carried at FVTPL | 10 | **(737,053)** | 130,461 |
| **Total operating income** | | **36,049,248** | 15,178,475 |
| Impairment (charge) / reversal on investment properties | 10 | **(83,640,644)** | 584,446 |
| Depreciation expense | 10 | **(9,706,356)** | (9,072,477) |
| Finance cost | 12 | **(6,978,368)** | (3,661,908) |
| Other expenses | 13 | **(19,113,840)** | (2,046,069) |
| **Total operating expenses** | | **(83,389,960)** | 982,467 |
| Other income | | **1,753** | - |
| **Net (loss) / income for the year** | | **(83,388,207)** | 982,467 |
| Other comprehensive income | | - | - |
| **Total comprehensive (loss) / income for the year** | | **(83,388,207)** | 982,467 |

The accompanying notes 1 to 24 form an integral part of these financial statements.

## STATEMENT OF CHANGES IN NET ASSETS (EQUITY)
**For the year ended 31 December 2022**
**(Amounts in Saudi Riyals)**

| | Note | 2022 | 2021 |
|---|---|---|---|
| **Net assets (Equity) value attributable to the Unitholder at beginning of the year** | | **502,164,162** | 501,181,695 |
| Dividend paid during the year | 17 | **(8,586,000)** | - |
| Total Comprehensive (loss) / income for the year | | **(83,388,207)** | 982,467 |
| **Net assets (Equity) value attributable to the unitholder at end of the year** | | **410,189,955** | 502,164,162 |

**Transactions in units for the year are summarized as follows**:

| | 2022 | 2021 |
|---|---|---|
| **Number of units at the beginning of the year** | **57,240,000** | 57,240,000 |
| Subscription of units | - | - |
| Redemption of units | - | - |
| **Number of units at the end of the year** | **57,240,000** | 57,240,000 |

**STATEMENT OF CASH FLOWS**
**For the year ended 31 December 2022**
**(Amounts in Saudi Riyals)**

| | Note | 2022 | 2021 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net (loss) / income for the year | | **(83,388,207)** | 982,467 |
| *Adjustment for* | | | |
| Depreciation on investment properties | 9 | **9,706,356** | 9,072,477 |
| Impairment charge / (reversal) on investment property | 9 | **83,640,644** | (584,446) |
| Unrealized gain from investments carried at FVTPL | 10 | **789,367** | (42,221) |
| Realized gain from investments carried at FVTPL | 10 | **(52,314)** | (88,240) |
| Finance cost charge | | **6,978,368** | 3,661,908 |
| | | **17,674,214** | 13,001,945 |
| **Changes in operating assets:** | | | |
| Prepayment and other assets | | **(6,581,427)** | 562,242 |
| Purchase of investment property | | **-** | (148,872,291) |
| Rent receivable | | **(19,379,779)** | 615,180 |
| **Changes in operating liabilities:** | | | |
| Accrued management fee | | **-** | - |
| Accrued expenses and other liabilities | | **16,345,489** | (85,259) |
| Unearned rental income | | **-** | 1,411,806 |
| **Net cash generated from / (used in) operating activities** | | **8,058,497** | (133,366,377) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Sale of investments carried at FVTPL | | **5,189,840** | 9,500,000 |
| Purchase of investments carried at FVTPL | | **(2,500,000)** | (13,000,000) |
| **Net cash generated from / (used in) investing activities** | | **2,689,840** | (3,500,000) |
| **CASH FLOWS FROM FINANCING ACTIVITY** | | | |
| Islamic Financing | 11 | **-** | 149,891,640 |
| Finance cost paid | | **(7,768,207)** | (3,341,997) |
| Dividend paid during the year | 17 | **(8,586,000)** | - |
| **Net cash (used in) / generated from financing activity** | | **(16,354,207)** | 146,549,643 |
| **NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS** | | **(5,605,871)** | 9,683,266 |
| Cash and cash equivalents at the beginning of the year | | **11,013,952** | 1,330,686 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | | **5,408,081** | 11,013,952 |

The accompanying notes 1 to 24 form an integral part of these financial statements.

## 1. THE FUND AND ITS ACTIVITIES

SICO Saudi REIT Fund (Previously known as Al Masha'ar REIT Fund) (the "REIT" or the "Fund") is a closed-ended Shariah compliant real estate investment traded fund. The Fund commenced its operation on 27 December 2017.

The REIT is managed by SICO Capital (Previously known as Muscat Capital) (the "Fund Manager"), a Saudi Closed Joint Stock company with commercial registration no.1010259328, and an Authorized Person licensed by the Capital Market Authority ("CMA") under license no. 08096-37 dated 20 June 2009.

The REIT acquired four properties, including one amounting to SAR 182,400,000 from Makkah Income Generating Fund, a Private Closed Fund also managed by SICO Capital (Previously known as Muscat Capital). Consideration of these purchases were disbursed by way of cash payment as well as an "In-Kind" consideration by way of Units in the SICO Saudi REIT Fund (Previously known as Al Masha'ar Fund) amounting to SAR 172,539,000 and SAR 399,861,000 respectively and by loan amounting to SAR 149,891,640.

The REIT operates in accordance with Real Estate Investment Funds Regulations and REIT Regulations issued by the CMA. The REIT is listed on Tadawul and the units of the REIT are traded on Tadawul in accordance with its rules and regulations. The subscribed units of the REIT equal to 57,240,000. The REIT has a term of 99 years, which is extendable at the discretion of the Fund Manager following the approval of CMA.

The Fund was launched with the investment objective of investing in income-generating real estate assets only in the holy cities of Makkah and Medina, Kingdom of Saudi Arabia. Subsequent to the period ended 31 December 2018 and effective from 10 January 2019, the Fund published its new Terms & Conditions with the updated investment objective to invest in income-generating real estate in any city within the Kingdom of Saudi Arabia.

The primary investment objective of the REIT is to provide its investors with current income by investing in construction developed income-producing real estate assets in the Kingdom of Saudi Arabia. While the REIT primarily invests in such assets, the REIT may opportunistically invest in real estate development projects; provided that (i) at least 75% of the REIT's total assets are invested in developed real estate assets which generate periodic income and (ii) the REIT may not invest in vacant land.

The REIT may, on a secondary basis, invest in development opportunities with profitable growth potentials that cater for specific real-estate needs, previously unavailable in certain areas. An added value is expected, in the medium term, to be created to Unitholders in such development projects. In the long term, the REIT's investment portfolio will continue to focus on attractive investment opportunities in different real-estate sectors, including, but not limited to, offices, trade exhibitions, houses, hospitality facilities, warehouses, etc. in order to build a real-estate base with diverse and stable income for Unitholders as well as achieve reasonable increase in the portfolio value.

The REIT shall be governed by the laws of Kingdom of Saudi Arabia and the regulations implemented by the CMA. The investments of the REIT shall comply with the Regulation of Ownership and Investment in Real Estate by Non-Saudis. The initial terms and conditions of the REIT were approved by CMA on 26 Muharram 1439H (Corresponding to 16 October 2017).

## 2. REGULATING AUTHORITY

The Fund is governed by the Real Estate Investment Funds Regulations (the "Regulations") and REIT instructions published by CMA, detailing requirements for real estate funds and traded real estate funds within the Kingdom of Saudi Arabia.

## 3. BASIS OF PREPARATION

### *3.1 Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") and to comply with implementing regulations issued by CMA and the Fund terms and conditions.

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

### *3.2 Basis of measurement and functional and presentation currency*

These financial statements have been prepared under the historical cost convention except for investments carried at FVTPL, and the amounts are expressed in Saudi Arabian Riyals (SAR), which is REITs functional and presentation currency.

### *3.3 Critical accounting judgments, estimates and assumption*

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period, are described below. REIT based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of REIT. Such changes are reflected in the assumptions when they occur.

#### *3.3.1 Critical accounting judgements*

**Going Concern**

REIT's management has made an assessment of the REIT's ability to continue as a going concern and is satisfied that the REIT has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on REIT's ability to continue as a going concern.

**Residual and useful lives of investment properties**

The REIT's management determines the estimated residual value and useful lives of its investment properties for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management will review the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

## 3. BASIS OF PREPARATION (CONTINUED)

***3.3 Critical accounting judgments, estimates and assumption (Continued)***

***3.3.1 Critical accounting judgements (Continued)***

**Business model assessment**

Classification and measurement of financial assets depend on the results of the SPPI and the business model test. The Company determines the business model at a level that reflects how Funds of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held.

Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

**Measurement of fair values**

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted priced included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Measurement of fair values (Continued)**

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement

The Company recognizes transfers between the levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 18 of these financial statements.

## 3. BASIS OF PREPARATION (CONTINUED)

### *3.3 Critical accounting judgments, estimates and assumption (Continued)*

#### *3.3.2 Critical accounting estimates*

**Valuation of investment properties**

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less cost to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the assets' useful lives and do not include restructuring activities that the fund is not yet committed to or significant future investments that will enhance each assets performance of the cash generating unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

**Impairment of non-financial assets**

The carrying amounts of the non-financial assets are reviewed at the end of each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using the pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

**Measurement of the expected credit loss allowance**

The measurement of the expected credit loss allowance for financial assets measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

A number of significant judgments are also required in applying the accounting requirements for measuring expected credit loss (ECL), such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing Fund of similar financial assets for the purposes of measuring ECL.

In the preparation of the financial statements, management has made certain additional assumptions in the measurement of Expected Credit Loss (ECL). Any future change in the assumptions and key estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods.

## 3. BASIS OF PREPARATION (CONTINUED)

### *3.3 Critical accounting judgments, estimates and assumption (Continued)*

### *3.3.2 Critical accounting estimates (Continued)*

**Useful lives of property and equipment and intangible assets**

The Company's management determines the estimated useful lives of its property and equipment and intangible assets for calculating depreciation and amortization. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation and amortization charge would be adjusted where the management believes the useful lives differ from previous estimates.

## 4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

### *4.1 New standards, amendments to standards and interpretations*

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Following standard, interpretation or amendment are effective from the current year and are adopted by the Company, however, these does not have any impact on the financial statements of the Company.

- COVID-19 - Related Rent Concessions (Amendments to IFRS 16);
- IFRS 17 - Insurance contracts, applicable for the period beginning on or after January 1, 2023;
- Amendments to IAS 1 - Classification of Liabilities as Current or Non-current, applicable for the period beginning on or after January,1, 2022;
- Onerous contracts - Cost of Fulfilling a contract (Amendments to IAS 37);
- Interest Rate Benchmark Reform - Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16); and
- Reference to Conceptual Framework (Amendments to IFRS 3).

### *4.2 New standards, amendments and revised IFRS issued but not yet effective*

The following new standards, amendments and revisions to existing standards, which were issued by IASB but not yet effective up to the date of issuance of the Company’s financial statements. The Company has opted not to early adopt these pronouncements and they do not have a significant impact on the financial statements of the Company.

- Amendment to IFRS 16, ‘Leases’ – COVID-19 related rent concessions Extension of the practical expedient;
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16;
- Amendments to IAS 1, Presentation of financial statements’, on classification of liabilities;
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8;
- Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction;
- IFRS 17, ‘Insurance contracts’, as amended in December 2021; and
- A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *5.1 Cash and cash equivalents*

Cash and cash equivalents consist of bank balances with a local Bank. Cash and cash equivalents are carried at amortized cost within the statement of financial position.

### *5.2 Rent Receivables*

Receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using effective commission method. Loss allowance for receivables is always measured at an amount equal to lifetime expected credit losses.

### *5.3 Investment properties*

Investment properties are Real estate assets that are held for capital appreciation and/or rental yields are recorded as investment properties. Investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is computed using the straight-line method. The cost less residual value of investment property is depreciated over the shorter of its useful life or the terms of the Fund i.e., 35 years.

Residual values and useful lives of investment properties are subject to review and adjustment, as necessary, when an asset's carrying value exceeds its recoverable amount; it has to be written down immediately to its recoverable amount. Capital gains result from the disposal, which arises when the selling value of an asset exceeds its carrying value, recorded in the statement of comprehensive (loss) / income.

### *5.4 Impairment of non-current assets*

Properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. Where an impairment loss subsequently reverses, the carrying amount of the property is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive (loss) / income.

### *5.5 Accrued expenses and other liabilities*

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

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

### *5.6 Revenue recognition*

The Fund recognises revenue from contracts with customers based on a five-step model*:*

Step l: Identify the contract with a customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.

Step 2: Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3: Determine the transaction price: The transaction price is the amount of consideration to which the Fund expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *5.6 Revenue recognition (Continued)*

Step 4: Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Fund will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Fund expects to be entitled in exchange for satisfying each performance obligation.
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue is measured at the fair value of the consideration received or receivable, considering contractually defined terms of payment. Rental income arising from operating leases on investment properties is recognized, net of discount, in accordance with the terms of leases over the lease term on a straight-line basis, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

### *5.7 Dividend income*

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of net trading income, net income from FVTPL financial instruments or other operating income based on the underlying classification of the equity instrument

### *5.8 Net gain or loss on financial assets and liabilities at Fair Value through Profit or Loss (“FVTPL”)*

Net gains or losses on financial assets and liabilities at FVTPL are changes in the fair value of financial assets held for trading or designated upon initial recognition as at FVTPL and exclude interest and dividend income and expenses.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the year and from reversal of the prior period’s unrealised gains and losses for financial instruments which were realised in the reporting period. Realised gains and losses on disposals of financial instruments classified as at FVTPL are calculated using the weighted average cost method. They represent the difference between an instrument’s initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

### *5.9 Investment transactions*

Investments transactions are accounted for as of the trade date.

### *5.10 Management fees and other expenses*

Management fees and other expenses are charged at rates / amounts within limits mentioned in terms and conditions of the REIT. Management fee is calculated and payable quarterly in arrears.

### *5.11 Zakat*

Zakat is the obligation of the unitholders and is not provided for in the financial statements.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *5.12 Net Assets (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 outstanding at the year end.

**Units in issue**

The Fund has units in issue. On liquidation of the Fund, they entitle the holders to the residual net assets. They rank pari passu in all respects and have identical terms and conditions. The units provide investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund net assets in the event of the Fund's liquidation.

Units are classified as equity as it meets all of the following conditions:

- it entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;
- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- The total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund over the life of the instrument.

### *5.13 Dividend distribution*

The REIT has a policy of distributing on annually at least 90% of its net profit, not including profit resulting from the sale of the underlying real estate assets and other investments.

### *5.14 Financial instruments*

**Recognition and initial measurement**

Receivables from operating leases issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Fund becomes a party to the contractual provisions of the instrument.

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

**A) Financial assets**

**Classification of financial assets**

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

A financial asset is measured at amortized cost if it meets the following conditions:

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *5.14 Financial instruments (Continued)*

### A) Financial assets (Continued)

**Classification of financial assets (Continued)**

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at FVOCI if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at FVTPL unless it is measured at amortized cost or at FVOCI.

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

**Subsequent measurement**

The following accounting policies apply to the subsequent measurement of financial assets.

| | |
|---|---|
| **Financial assets at FVTPL** | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in consolidated statement of profit or loss. |
| **Financial assets at amortized cost** | These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gain, loss, and impairment are recognized in income statement. Any gain or loss on derecognition is recognized in consolidated statement of profit or loss. |

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *5.14 Financial instruments (Continued)*

### A) Financial assets (Continued)

**Reclassification**

Financial assets are not reclassified subsequent to their initial recognition, except in the period within which the Fund changes its business model for managing financial assets.

**Derecognition**

A financial asset is derecognized when:

- the rights to receive cash flows from the asset have expired, or
- the Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either:

a) the Fund has transferred substantially all the risks and rewards of the asset, or
b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

**Impairment of financial assets**

Recognition of credit losses is no longer dependent on the Fund first identifying a credit loss event. Instead, the Fund considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, reasonable and supportable forecasts that affect the actual collectability of the future cash flows of the instrument.

**Expected credit losses assessment:**

The Fund applies IFRS 9 simplified approach for measuring expected credit losses, which uses a lifetime ECL allowance.

The expected loss rates are based on the payment profiles of receivables over a period of 12 months before each reported period and corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Fund has identified GDP of the Kingdom of Saudi Arabia (the country in which it renders the services), inflation rate to be the most relevant factor and accordingly adjusts the historical loss rates based on expected changes in these factors.

The expected loss approach divides the total loss amount modelling into the following parts: Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD). These are briefly described below:

**Loss Given Default (LGD)**: This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *5.14 Financial instruments (Continued)*

### A) Financial assets (Continued)

**Expected credit losses assessment (Continued)**

**Probability of Default (PD)**: the likelihood of a default over a particular time horizon.

**Exposure at Default (EAD)**: This is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on commitment facilities.

**Definition of default**

In the above context, the Fund considers default when:

- the customer is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realizing collateral (if any is held by the Fund); or
- the customer is more than 360 days past due on any material credit obligation to the Fund. As the industry norm suggests that such a period fairly represents the default scenario for the Fund, this rebuts the presumption of 90 days mentioned in IFRS 9.

The carrying amount of the asset is reduced using the above model and the loss is recognized in the consolidated statement of comprehensive income. Receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery, and all collateral has been realized or has been transferred to the Fund. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced. If a write-off is later recovered, the recovery is recognized under other income in the consolidated statement of profit or loss.

**Write-off**

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Fund determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

### B) Financial liabilities

All financial liabilities are recognized initially at fair value and, in the case of borrowings and advances, net of directly attributable transaction costs. The Fund's financial liabilities mainly include trade and other payables, related party, and borrowings. After initial recognition, borrowings and advances are subsequently measured at amortized cost using the effective interest method.

**Derecognition**

The Fund derecognizes financial liabilities when the contractual obligations are discharged, cancelled or expired.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *5.14 Financial instruments (Continued)*

**Modifications of financial assets and financial liabilities**

**Financial assets**

If the terms of the financial asset are modified, the Fund evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized, and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Fund recalculates the gross carrying amount of the financial asset and recognizes the amount adjusting the gross carrying amount as modification gain or loss in the consolidated statement of profit or loss.

**Financial liabilities**

The Fund derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability distinguished and the new financial liability with modified terms are recognized in the consolidated statement of profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Non-current assets classified as held for sale are presented separately and measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some held for sale assets such as financial assets, continue to be measured in accordance with the Fund’s relevant accounting policy for those assets. Once classified as held for sale, the assets are not subject to depreciation or amortization.

Any profit or loss arising from the sale of a discontinued operation or its remeasurement to fair value less costs to sell is presented as part of a single line item, profit or loss from discontinued operations.

### *5.15 IFRS 16 Leases*

The Fund has adopted IFRS 16 - Leases effective from 1 January 2019.

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

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *5.15 IFRS 16 Leases (Continued)*

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC 15 Operating Leases – incentives and SIC-27 Evaluating the Substance of Transactions involving the legal Form of Lease.

The Fund has assessed the impact of above standard. Based on the assessment, the above standard has no material impact on the Fund's financial statements as of the reporting date.

## 6. MANAGEMENT FEE, OTHER EXPENSES AND TRANSACTION FEE

### - MANAGEMENT FEE, OTHER EXPENSES

On a daily basis, the Fund Manager charges the Fund, management fee at the rate of 1 percent per annum of the Fund's net assets value and is paid on a quarterly basis. The Fund Manager has temporarily suspended charging the Fund with management fees starting from 14 March 2020. No management fees was charged during the year ended 2022, and 2021.

### - TRANSACTION FEE

The Fund Manager charges the Fund, a one-time acquisition fee at the rate of 2.5% (2.5% December 2020) percent on the acquisition or sale price of the real estate assets, except for Eskan 4, 5 and 6.

## 7. CASH AND CASH EQUIVALENTS

| | **Notes** | **31 December 2022** | 31 December 2021 |
|---|---|---|---|
| Cash at bank | 7.1 | **5,408,081** | 11,013,952 |
| **Total** | | **5,408,081** | 11,013,952 |

**7.1** Cash balances includes current accounts held with Bank Muscat and other local financial institution. The Fund does not earn profit on these current accounts.

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

## 8. INVESTMENTS CARRIED AT FVTPL

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| SICO Capital Money Market Fund | **1,501,911** | 4,138,964 |

The following is the movement in investments during the year

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Balance at the beginning of the year | **4,138,964** | 508,503 |
| Additions during the year | **3,289,839** | 13,000,000 |
| Sold during the year | **( 5,137,525)** | (9,411,760) |
| At the end of the year | **2,291,278** | 4,096,743 |
| Change in fair value: | | |
| Changes in fair value during the year | **(737,053)** | 130,461 |
| Realized during the year | **(52,314)** | (88,240) |
| Unrealized at the end of the year | **(789,367)** | 42,221 |
| Net Investments at the end of the year | **1,501,911** | 4,138,964 |

## 9. RENT RECEIVABLE / UNEARNED RENTAL

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| At the beginning of the year | **(1,411,806)** | 615,180 |
| Earned during the year | **36,786,301** | 15,048,014 |
| Received during the year | **(17,406,522)** | (17,075,000) |
| Rent receivable / (Unearned rentals) at the end of the year | **17,967,973** | (1,411,806) |

Timing of revenue recognition

| | **December 31, 2022 SR** | December 31, 2021 SR |
|---|---|---|
| Performance obligation satisfied over time | **36,786,301** | 15,048,014 |

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

## 10. INVESTMENT PROPERTIES

**As of 31 December 2022**

| | Note | Land | Building | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as of 31 December 2021 | | **381,549,835** | **339,722,456** | **721,272,291** |
| Additions | | **-** | **-** | **-** |
| **Balance as of 31 December 2022** | | **381,549,835** | **339,722,456** | **721,272,291** |
| **Accumulated Depreciation** | | | | |
| Balance as of 31 December 2021 | | **-** | **29,828,931** | **29,828,931** |
| Charge for the year | 10.1 | **-** | **9,706,356** | **9,706,356** |
| **Balance as of 31 December 2022** | | **-** | **39,535,287** | **39,535,287** |

| | Note | Land | Building | Total |
|---|---|---|---|---|
| **Accumulated Impairment losses** | | | | |
| Balance as of 31 December 2022 | | **-** | **52,858,360** | **52,858,360** |
| Charge for the year | | **-** | **83,640,644** | **83,640,644** |
| **Balance as of 31 December 2022** | | **-** | **136,499,004** | **136,499,004** |
| **Book Value:** | | | | |
| **as of 31 December, 2022** | | **381,549,835** | **163,688,165** | **545,238,000** |

As of 31 December 2021

| | Note | Land | Building | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as of 31 December 2020 | | 330,241,376 | 242,158,624 | 572,400,000 |
| Additions | | 51,308,459 | 97,563,832 | 148,872,291 |
| **Balance as of 31 December 2021** | | 381,549,835 | 339,722,456 | 721,272,291 |
| **Accumulated Depreciation** | | | | |
| Balance as of 31 December2020 | | - | 20,756,454 | 20,756,454 |
| Charge for the year | 10.1 | - | 9,072,477 | 9,072,477 |
| **Balance as of 31 December 2021** | | - | 29,828,931 | 29,828,931 |
| **Accumulated Impairment losses** | | | | |
| Balance as of 31 December 2020 | | - | 53,442,806 | 53,442,806 |
| Reverse for the year | | - | (584,446) | (584,446) |
| **Balance as of 31 December 2021** | | | 52,858,360 | 52,858,360 |
| **Book Value:** | | | | |
| **as of 31 December 2021** | | 381,549,835 | 257,035,165 | 638,585,000 |

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

## 10. INVESTMENT PROPERTIES (CONTINUED)

The investment properties represent the following four properties:

- The Eskan 4 building is located in Makkah with an annual rental income of SAR 13.5M;
- The Eskan 5 building is located in Makkah with an annual rental income of SAR 12.825M;
- The Eskan 6 building is located in Makkah with an annual rental income of SAR 12.312M; and
- The I Offices building is located in Riyadh with annual rental income of SAR 10.45M.

**10.1** The Fund has the policy of charging depreciation on building over 35 years using the straight-line method.

## 11. NET REALIZED AND UNREALIZED (LOSS) / GAIN FROM INVESTMENTS CARRIED AT FVTPL

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Unrealized (loss) / gain from investments carried at FVTPL | **(789,367)** | 42,221 |
| Realized gain from investments carried at FVTPL | **52,314** | 88,240 |
| **Total** | **(737,053)** | 130,461 |

## 12. ISLAMIC FINANCING

The Fund has obtained Islamic financing amounting to SAR 149.89 million dated 09 March 2021 from Riyad Bank. The finance cost of facility is calculated at 3 months SAIBOR + 2.25%. The contract has a maturity of 3 months, which is renewed after every three months. The Fund is allowed under its terms and conditions to obtain loans for the acquisition of properties in order to achieve the objectives of the Fund. The title of the properties of the Fund are kept as a collateral against the borrowing amount.

## 13. OTHER EXPENSES

| | **Note** | **31 December 2022** | 31 December 2021 |
|---|---|---|---|
| Legal and professional charges | **13.1** | **15,993,927** | - |
| Director Board Fees | | **20,000** | 20,000 |
| REITs - Basic Registry Services | | **400,000** | 400,000 |
| Admin Fee | | **254,510** | 249,084 |
| Custodian Fees | | **175,000** | 175,000 |
| Listing Fee | | **152,706** | 149,450 |
| Sharia Board Fees | | **37,500** | 37,500 |
| Audit Fees MG | | **35,500** | 35,500 |
| **Total** | | **19,113,840** | 2,046,069 |

**13.1** The tenant filed two legal cases against the fund to claim back the rental amounts they paid for the below rental periods:

- From 27 December 2019 till 26 December 2020.
- From 27 December 2020 till 26 December 2021.
- From 27 December 2021 till 26 December 2022.

On 06 March 2023, a preliminary (non-final) ruling has been issued in favor of the tenant with an amount of SR 15,993,927.

For the year ended 31 December 2022 (Amounts in Saudi Riyals)

## 14. EFFECT OF NET ASSET (EQUITY) VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED

In accordance with Article 22 of the Real Estate Investments Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's assets based on an average of two evaluations prepared by independent evaluators. As set out in the terms and conditions of the Fund, net asset value declared is based on the market value obtained. However, in accordance with accounting policy of the Fund, investment properties are carried at cost less accumulated depreciation and impairment losses, if any. Accordingly, the fair value below is disclosed for information purposes and has not been accounted for in the Fund's financial statements.

The valuation of the investment properties (the "properties") is determined by **White Cubes Real Estate Company** and **Qiam Valuation** These two valuers are licensed by the Saudi Authority for Accredited Valuers ("TAQEEM"). The Fund Manager has used the average of two valuations for the purpose of disclosing the fair value of the properties. The properties were valued taking into consideration a number of factors, including the area and type of properties, and valuation techniques using significant unobservable inputs, including the land plus cost model, direct comparison method and discounted cash flow method.

As of 31 December 2022, the valuation of the investment properties are as follows:

| **31 December 2022** | **First Appraiser** | **Second Appraiser** | **Average** |
|---|---|---|---|
| Investment properties | **509,400,000** | **581,076,000** | **545,238,000** |
| **Total** | **509,400,000** | **581,076,000** | **545,238,000** |

| **31 December 2021** | **First Appraiser** | **Second Appraiser** | **Average** |
|---|---|---|---|
| Investment properties | 659,800,000 | 617,370,000 | 638,585,000 |
| **Total** | 659,800,000 | 617,370,000 | 638,585,000 |

Management has used the average of the two valuations for the purposes of disclosing the fair value of the investment properties.

The investment properties were valued taking into consideration a number of factors, including the area and type of property and valuation techniques using significant unobservable inputs, including the financial & fragmentation plot analysis, land plus cost model, direct comparison method and discounted cash flow method. The analysis of investment properties fair value versus cost is disclosed below:

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Estimated fair value of investment properties based on the average of the two valuers used | **545,238,000** | 638,585,000 |
| Less: the carrying value of investment property | **(545,238,000)** | (638,585,000) |
| Estimated fair value in surplus of book value | **-** | - |
| Units in issue (numbers) | **57,240,000** | 57,240,000 |
| Additional value per unit based on fair value | **-** | - |

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

## 14. EFFECT OF NET ASSET (EQUITY) VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED (CONTINUED)

***Net asset (Equity) value:***

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Net assets (Equity) attributable to unitholders as per the financial statements before fair value adjustment | **426,183,882** | 502,164,162 |
| Estimated fair value in surplus of book value | - | - |
| Net assets (Equity) attributable to unitholders based on fair valuation of investment properties | **426,183,882** | 502,164,162 |

***Net asset attributable to each unit:***

| | **31 December 2022** | 31 December 2021 |
|---|---|---|
| Net Assets (Equity) value per unit as per the financial statements before fair value adjustment | **7.17** | 8.77 |
| Increase in value per unit based on fair value | - | - |
| Net assets (Equity) attributable to each unit based on fair valuation | **7.17** | 8.77 |

The following table shows the valuations techniques used in determining the fair value of investment properties, as well as key unobservable inputs used in valuation models.

Measurement data of fair value according to IFRS 13 as at 31 December 2022 as follows:

| **White Cubes** | | | |
|---|---|---|---|
| **Properties** | **Valuation approach** | **Key inputs and valuation assumptions** | **Rate** |
| Eskan 4 | Market approach- comparable method and Cost Approach- DRC method | Capitalization rate | 8% |
| Eskan 5 | | Capitalization rate | 8% |
| Eskan 6 | | Capitalization rate | 8% |
| I offices | Market approach- comparable methods, Cost approach-DRC method and Income approach- Cap. method | Capitalization rate | 8% |

| **Qiam Valuation** | | | |
|---|---|---|---|
| **Properties** | **Valuation approach** | **Key inputs and valuation assumptions** | **Rate** |
| Eskan 4 | Discounted cash flows | Discount rate | 9% |
| Eskan 5 | | Discount rate | 9% |
| Eskan 6 | | Discount rate | 9% |
| Ioffices | | Discount rate | 9% |

All properties are held in the name of Al Masha’ar REIT real estate Company (the “SPV”). The SPV is holding these properties for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the properties.

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

## 15. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties of the Fund include "SICO Capital" being the Fund Manager, (Bank Muscat being the shareholder of SICO Capital), with the underlying properties of the Fund being custodized with Riyad Capital (being the custodian of the Funds).

For management services, the Fund pays quarterly, the management fees at an annual rate of 1% of the net assets (equity) of the Fund attributable to Unitholders, at each valuation date, as set out in the Fund's terms and conditions. However, in light of the Fund manager's announcement on Tadawwul for waiver of the management fee, the accrual of management fee was restricted since 14 March 2020.

The Fund pays fixed custodian fees of SR 175,000 per annum, as set out in the Fund's terms and conditions and is paid quarterly.

The significant related party transactions entered into by the Fund during the year are as follows:

| Related Party | Nature | 31 December 2022 Amount | 31 December 2021 Amount |
|---|---|---|---|
| SICO Capital | Management fee | - | - |
| | Structuring and Arranging fee | - | 2,585,631 |
| | Admin fee | **(254,510)** | (249,084) |
| | Others | **(38,176)** | (37,362) |
| Riyad Capital | Custodial fees | **(175,000)** | (175,000) |

The balances resulting from related party transactions are as follows:

| Related Party | Nature of transaction | 31 December 2022 Balance | 31 December 2021 Balance |
|---|---|---|---|
| SICO Capital | Management fee ** | **142,431** | 142,431 |
| | Admin fee * | **(157,480)** | (143,136) |
| | Others * | **(5,408)** | (3,257) |
| Riyad Capital | Custodial fees * | **(67,190)** | (114,940) |
| Bank Muscat | Current account | **0.00** | 2,305 |
| SICO Capital Money Market fund | Investments | **1,501,911** | 4,138,964 |

* These balances have been recorded under accrued expenses and other liabilities.

** This is recorded under prepayments and other assets.

## 16. RISK MANAGEMENT

### 16.1 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The REIT's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The REIT's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the REIT's financial performance.

Financial instruments carried in these financial statements principally include cash and cash equivalents, rent receivable, and accrued expenses and other liabilities. Financial assets and liabilities are offset and net amounts reported in the financial statements, when the REIT has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and liability simultaneously.

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

## 16. RISK MANAGEMENT (CONTINUED)

### 16.1 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### (a) Market risk

The REIT will be subject to the general conditions of the real estate sector in Saudi Arabia, which itself is influenced by a variety of factors such as, but not limited to the overall macroeconomic growth in the kingdom, commission rates, demand-supply, availability of financing, investor sentiment, liquidity, legal and regulatory requirement. The REIT management monitors on a regular basis the fluctuation and changes in the overall economic environment and believes that the impact of such changes is not significant to the REIT.

***Currency risk***

Currency risk is the risk that the value of financial instrument may fluctuate due to a change in foreign exchange rates. The financial instruments of the Fund i.e., bank balances, financial assets held at FVTPL, rent receivable, accrued management fee and accrued expenses and other liabilities are denominated in Saudi Arabian Riyals. Accordingly, the Fund is not exposed to any currency risk.

***Price risk***

Price risk is the risk that the value of 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 the financial instruments that the Fund holds.

The Fund closely monitors the price movement of its investment in financial instruments. As of the statement of financial position date, the Fund has investment in SICO Capital Money Market Fund.

The effect on the net assets (Equity) (as a result of change in fair value of investments as 31 December) due to a reasonably possible change in equity of FVTPL investments, with all other variable held constant, is as follows:

| | | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| Effect on Net Assets | ±5% | **75,096** | 206,948 |

***Commission rate risk***

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

The fund has obtained Islamic Financing facility during the year and is exposed to commission rate risk. The effect on the net assets (Equity) (as a result of change in finance cost as at 31 December) due to a reasonably possible change in commission rate, with all other variable held constant, is as follows:

In case there was 1% change in the commission rate:

| | | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| Effect on Net Assets | ±1% | **1,498,916** | 1,498,916 |

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

### (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 its rent receivable and cash at bank.

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

## 16. RISK MANAGEMENT (CONTINUED)

### 16.1 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### (b) Credit risk (Continued)

Its Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund seeks to limit its credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The credit quality of the Fund's bank balance is assessed with reference to external credit ratings. The bank balances along with credit ratings are tabulated below.

| Rating of Financial Institution | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **Cash at bank** | | |
| BBB+ | **5,405,776** | 11,011,647 |
| Ba2 | **2,305** | 2,305 |
| | **5,408,081** | 11,013,952 |

The measurement category and the carrying amount of financial assets in accordance with IFRS 9 are as follows:

| | Measurement category | 2022 Carrying amount | 2021 Carrying amount |
|---|---|---|---|
| Cash and cash equivalents | Amortized cost | **5,408,081** | 11,013,952 |
| Investments carried at FVTPL | FVTPL (Mandatory) | **1,501,911** | 4,138,964 |
| Rent receivable | Amortized cost | **17,967,973** | - |
| Prepayments and other assets | Amortized cost | **7,010,174** | 428,747 |
| **Total financial assets** | | **31,888,139** | 15,581,663 |

The Fund applies IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for receivables. In respect of interest-bearing financial assets which comprises of term deposits, the Fund applies IFRS 9 general approach to measure expected credit losses. As of 31 December 2022, the Fund has calculated the ECL on the above exposures, however, due to the amount being minimum it is not recorded in the financial statements.

The following table shows maximum exposure to credit risk for the components of the statement of financial position.

| | Note | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| Cash and cash equivalents | 7 | **5,408,081** | 11,013,952 |
| Rent Receivable | 9 | **17,967,973** | - |

#### (c) Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in generating funds to meet commitments associated with financial liabilities which comprises of Islamic financing and other liabilities. The Fund is a closed-ended fund and further to subscribing to the Fund's units during the offering period, no sales and purchase of units are permitted unless specifically approved by CMA.

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

## 16. RISK MANAGEMENT (CONTINUED)

### 16.1 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### (c) Liquidity risk (Continued)

The remaining contractual maturities at the reporting date of the Fund's financial liabilities consisting of accrued management and accrued expenses and other liabilities are all due as follows:

| | 31 December 2022 | | | |
|---|---|---|---|---|
| | **Carrying amount** | **Up to three months** | **More than 3 months and up to one year** | **More than one year** |
| Islamic financing | **150,766,249** | **150,766,249** | - | - |
| Accrued expenses and other liabilities | **176,008** | **176,008** | - | - |
| | **150,942,257** | **150,942,257** | - | - |

| | 31 December 2021 | | | |
|---|---|---|---|---|
| | Carrying amount | Up to three months | More than 3 months and up to one year | More than one year |
| Islamic financing | 150,211,551 | 150,211,551 | - | - |
| Accrued expenses and other liabilities | 379,144 | 379,144 | - | - |
| | 150,590,695 | 150,590,695 | - | - |

The Fund Manager already has adequate cash and liquid assets to settle its financial liabilities as they fall due.

#### (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.

### 16.2 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 Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments:

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

## 16. RISK MANAGEMENT (CONTINUED)

### 16.2 FAIR VALUE ESTIMATION (CONTINUED)

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are observable inputs for the asset or liability.

As of December 31, 2022, and 2021 the Fund's financial instruments comprise cash and cash equivalent, Investment carried at fair value through profit and loss, rent receivable, accrued management fee and accrued expenses and other liabilities. Except for Investments carried at fair value through profit or loss, all the financial instruments are measured at amortised cost and their carrying value is a reasonable approximate of fair value.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments.

| **31 December 2022** | **Carrying value** | **Fair Value** | | | |
|---|---|---|---|---|---|
| | | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets measured at fair value** | | | | | |
| Investments carried at Fair Value Through Profit or Loss (FVTPL) | **1,501,911** | **1,501,911** | **-** | **-** | **1,501,911** |

| **31 December 2021** | **Carrying value** | **Fair Value** | | | |
|---|---|---|---|---|---|
| | | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets measured at fair value** | | | | | |
| Investments carried at Fair Value Through Profit or Loss (FVTPL) | 4,138,964 | 4,138,964 | - | - | 4,138,964 |

Valuation technique for calculating the fair value of investments under Level 2 comprises of determining the net asset value per unit of the investee funds.

## 17. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and financial liabilities are classified under amortised cost (except for investments carried at fair value through profit or loss which are classified at fair value) as of 31 December 2022 and 31 December 2021.

## 18. SEGMENT REPORTING

The Fund has invested in three real estate investments in the Kingdom of Saudi Arabia. As it is invested in a single industry sector and in a single country, no segment information has been presented.

## 19. DIVIDEND DISTRIBUTION

In accordance with the approved terms and conditions of the Fund, directors recommended to distribute dividends with regards to the year ended 31 December 2021 amounting to SR 0.15 per unit amounted to SR 8,586,000 to its unitholders. The same was paid on 25th January 2022.

## 20. EVENTS AFTER THE REPORTING DATE

The Terms and Conditions were updated on 26 February 2023, there are no significant changes in the Terms and Conditions of the Fund.

## 21. SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and interpretations have been issued but are not yet effective. The Fund intends to adopt all the applicable standards and interpretations when these become effective. The Fund manager has assessed the impact of these new standards and interpretations and believes that none of these would have any effect on the future financial statements of the Fund.

## 22. LAST VALUATION DAY

The last valuation day of the year was at 31 December 2022.

## 23. Reclassification

Certain amounts have been reclassified for presentation purpose only.

## 24. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board on 30th March 2023 (Corresponding to 08 Ramadan, 1444H).

**Signed on behalf of Fund's Board of Directors**

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**Authorized Signatory**