



# SICO Saudi REIT Fund

Annual Report

# 2021



## **SICO Capital**

Tamkeen Tower- 11<sup>th</sup> Floor

P.O.64666 Riyadh 11546

Kingdom of Saudi Arabia

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# Fund Overview

## Fund Overview

**SICO Saudi REIT Fund** is a Sharia-compliant closed-ended real estate investment-traded fund. The fund operates in accordance with the Real Estate Investment Funds Regulations issued by the Capital Market Authority. The fund was listed on Tadawul (Saudi Stock Exchange) in January 2018, and its units are traded in accordance with the rules and regulations of Tadawul. The term of the fund is (99) years from the date of listing, and the size of its initial assets is 572,400,000 SAR.

## Fund Manager

### **SICO Capital**

11<sup>th</sup> Floor- Tamkeen Tower- King Fahad Road  
P.O.64666, Olaya- Riyadh 11546  
Kingdom of Saudi Arabia  
Tel: +966-11-279-9877  
[www.sicocapital.com](http://www.sicocapital.com)

## Custodian

### **Riyad Capital**

Al-Shohda Dist. Unit Number 69  
P.O.7279 Riyadh 13241  
Kingdom of Saudi Arabia  
Tel: 920012299  
[www.riyadcapital.com](http://www.riyadcapital.com)

## Auditor

### **PKF Al Bassam & Co.**

P.O.69658 Riyadh 11557 Kingdom of Saudi Arabia  
[www.pkf.com](http://www.pkf.com)

## Summary of the Fund Activities During 2021

Date	Statement
23-02-2021	The fund manager announced the resignation of the fund board member Dr Abdulrhman bin Khalil Tulfat (non-independent member) as of February 23,2021.
21-03-2021	The fund manager announced the completion of the acquisition of the property known as I-Offices for an amount of 135 million SAR.
29-04-2021	The fund's board of directors agreed with Eskan Development and Investment Company to collect the rent amount 8 million SAR in addition to value-added tax from January 1 <sup>st</sup> ,2021 to December 31, 2021.
02-05-2021	The fund manager announced Dar Almuraja as the fund's Sharia advisor.
22-06-2021	The fund manager decided to terminate the management, marketing and maintenance agreement and not to renew it for ESKAN Tower 5 with Eskan Development and Investment Company which expires on 25/12/2021.
01-07-2021	The Fund Manager announced the resignation of the Chairman of the Fund's Board of Directors Mr. Ahmed bin Abdullah bin Ahmed Al Busaidi (non-independent member) as of June 30, 2021
26-08-2021	The fund manager announced the appointment of the chairman of the fund's board of directors Mr. Sultan bin Abdullatif bin Abdullah Nugali (non-independent member), as of 19/08/2021.
21-10-2021	The fund manager announced the approval of the fund's board of directors of a non fundamental change in the Al-Mashaer REIT Fund. The change will take effect on 02/12/2021, and its details are as follows:- Changing the name of the fund from Al-Mashaer REIT to SICO Saudi REIT. Changing the name of the fund manager from Muscat Capital to SICO Capital.
21-12-2021	The fund manager announced invitation to the fund unitholders' meeting to vote on amending the fund's strategy.
27-12-2021	The fund manager announced that he had received a notice on December 26, 2021 from the Eskan Development and Investment Company, as the tenant of (ESKAN Tower 4 and ESKAN Tower 6), which included its unwillingness to renew the lease contract.
30-12-2021	The fund manager announced the distribution of cash dividends to the fund unitholders for the year 2021 by 0.15 SAR per unit.



# Real Estate Portfolio Highlights

## Portfolio Allocation by Sector

based on the market value as of December 2021

Hospitality	77.9%
Offices	22.1%

## Portfolio Allocation by Assets

based on the market value as of December 2021

ESKAN Tower 4	26.3%
ESKAN Tower 5	25.7%
ESKAN Tower 6	25.9%
I-Offices	22.1%

## Portfolio Allocation by Location

based on the market value as of December 2021

Makkah	77.9%
Riyadh	22.1%

## Occupancy rate during the year 2021

ESKAN Tower 4	100%
ESKAN Tower 5	100%*
ESKAN Tower 6	100%
I-Offices	100%

\*The contract of Eskan 5 tower ended on 27-12-2021

## Real estate rents as a percentage of the fund's total rents based on the contracts

ESKAN Tower 4	26%
ESKAN Tower 5	25%
ESKAN Tower 6	28%
I-Offices	21%

## Uncollected Rents

The Fund's Board of Directors agreed with Eskan Development and Investment Company (the tenant of Tower 5,6 and 7) to collect a rent of 8 million SAR in addition to the VAT for the year 2021.

The rents of (Eskan 4,5,6) based on contract is 38,637,000 SAR.

The collected rent of these properties for 2021 is 8,000,000 SAR .

the percentage of uncollected rents of (Eskan 4,5,6) is 79.3%.



## ESKAN Tower 4

Sector	Hospitality
City	Makkah
Land size	1,287.97 m2
Built up area	18,053 m2
Acquisition Price	190,000,000 SAR
Main tenant	Eskan Development and Investment Company
Occupancy rate	100%
Lease term expiration	27-12-2022

## ESKAN Tower 5

Sector	Hospitality
City	Makkah
Land size	1,394.5 m2
Built up area	19,905 m2
Acquisition Price	182,400,000
Main tenant	Eskan Development and Investment Company
Occupancy rate	100%
Lease term expiration	27-12-2021

## ESKAN Tower 6

Sector	Hospitality
City	Makkah
Land size	1,458 m2
Built up area	15,314 m2
Acquisition Price	200,000,000 SAR
Main tenant	Eskan Development and Investment Company
Occupancy rate	100%
Lease term expiration	27-12-2022

## i Office

Sector	Offices
City	Riyadh
Land size	6,155 m2
Built up area	23,195 m2
Acquisition Price	135,000,000 SAR
Main tenant	Multi
Occupancy rate	100%
Lease term expiration	-



# Fund Performance

## Comparative Table covering the last three financial years

	2019	2020	2021
Fund net asset value	578,795,553	501,646,098	502,164,162
Fund net asset value per unit	10.08	8.76	8.77
Highest net asset value of the Fund per unit	10.08	9.59	8.77
Lowest net asset value of the Fund per unit	10.17	8.76	8.65
Number of units issued at the end of the financial year	57,240,000	57,240,000	57,240,000
Income distributed per unit	0.52	0.36	0.15
Total expense ratio*	2.53%	1.75%	1.13%
Debt to AUM Ratio**	0%	0%	22.9%*

\*Excluding the depreciation and impairment expenses.

\*\*The term of the loan is 5 years started from March 2021.

## Performance Record

(a) Total Revenue for one year, three years, and five years (since inception)

Period	One Year	Three Years	Five Years	Since Inception
<b>Total Revenue</b>	1.81%	(6.17%)	N/A	0.63%

(b) The annual total revenue for each of the last ten financial years or (since inception)

Year	2018	2019	2020	2021
<b>Total Annual Revenue</b>	6.90%	4.54%	(12.34%)	1.81%

(c) fees, services and expenses

**Amount in SAR**

Management fees	0
Custodian fees	175,000
Sharia fees	37,500
Director Board fees	20,000
Auditor's fees	35,500
Listing fees	149,451
REITs - Basic Registry Services	400,000
Admin fee	249,084
Other expenses	979,535
Financing expenses	3,661,908
<b>Total</b>	<b>5,707,978</b>

These expenses include actual expenses only, do not include depreciation expenses.

### Holding Management fees

On July 8, 2020, the Fund Manager temporarily hold charging the fund management fees, which is 1% of the fund's net assets value, starting from March 15, 2020. The fund manager kept holding this fees for the year 2021 as well for the benefit of the fund unitholders.

## Fundamental & Non-fundamental Changes

- On March, the fund manager announced the completion of acquiring a I-Offices for an amount of 135 million SAR.
- On April, the fund's board of directors agreed with Eskan Development and Investment Company to collect an amount of rent 8 million SAR in addition to the VAT from January 1, 2021 to December 31, for the rent of Eskan 4,5,6 towers.
- On December, the fund manager announced that he received a letter on December 26, 2021, from Eskan Development and Investment Company the tenant of (ESKAN Tower 4 & ESKAN Tower 6), which include his unwillingness to renew the lease contract.
- On December, the fund manager announced the invitation for the fund unit holders to attend meeting to vote on amending the fund's strategy.
- The fund manager announced cash dividend to the fund unitholders for the period of 2021 by 0.15 SAR per unit.

## Statement about any special commission received by the fund manager during the period

The fund manager did not receive any special commissions during 2021.

## Dividends during fund life

Year	2018	2019	2020	2021
<b>Dividend per unit SAR</b>	0.15	0.1	0.52	0.52



# Fund Board of Directors

During the year 2021, the Fund's Board of Directors held three meetings on April, August and December. The following is a summary of the most important decision made by the fund's board of directors.

- On April, the Board approved to receive 8 million SAR of rent for 2021. They directed the fund manager to ratify this through the decision of the Board of Directors and other governance procedures before finalizing the decision and announcing it.
- On April, the Board approved the appointment of Dar Almuraja as the fund's Sharia advisor.
- On August, the Board approved to amend the fund's strategy in which the fund aims to invest at least 75% of the total value of the fund's assets according to the latest audited financial statements, in a real estate assets that are structurally developed and generate income within the Kingdom of Saudi Arabia instead of investing in sites located in Makkah and Madinah with a minimum of 55%, and outside the cities of Makkah and Madinah with a maximum of 45% of the fund's total assets, according to the latest financial statements.
- On December, the Board approved the appointment of a new property manager for the property (I-Offices).
- On December, the Board approved the distribution to the Fund's unitholders 0.15 SAR per unit.





# Risk Assessment Report

## Risk Factors

- 3 out of 4 properties are located in Makkah; this makes the Fund's assets exposed to more risks of real estate concentration in one city.
- The hotels and housing for pilgrims and Umrah performers share represents 79% of the real estate owned by the Fund. This exposes the Fund to the risks associated with the hospitality sector.
- 2 properties located in Makkah are rented by one lessee, which is Eskan for Real Estate Investment & Development Company, and since most of the rental income of the Fund is from the same tenant. This may expose the fund to the risk of insufficient cash flow.
- Other potential risks include changes in tax and legal regulations. This includes imposing a value-added tax of 15%. This may apply to Fund's expenses.
- REIT funds are greatly affected by the changes in interest rates (if any) due to the resulting increase in the cost of financing and may significantly reduce the attractiveness of the REIT as a viable investment tool.
- The private commercial sector of the Fund may be affected by many factors such as epidemics and infectious diseases, which forces the state to implement precautionary curfew on cities.

## Risk Management

- The Fund is managed by an experienced team with a proven track record in managing assets and investment funds.
- The Fund aims to acquire income-generating real estate in the main cities of the Kingdom of Saudi Arabia.
- The Fund aims to diversify investments to include all commercial sectors such as hospitality, commercial, educational and health sectors.
- The Fund seeks to improve the performance of assets for a certain level of risk.
- The Fund's assets are leased to high-net-worth tenants. And they have low risk of defaulting on rents. The Fund has also obtained promissory notes as security for the collection of rents.



# Financial Statements

**SICO SAUDI REIT FUND (Previously known as  
Al Masha'ar REIT Fund)  
A Real Estate Investments Traded Fund  
(Closed-Ended Fund)  
MANAGED BY SICO CAPITAL (Previously known as  
Muscat Capital)**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2021 AND INDEPENDENT AUDITOR'S  
REPORT**

**SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)**  
**A Real Estate Investments Traded Fund**  
**(Closed-Ended Fund)**  
**MANAGED BY SICO CAPITAL (Previously known as Muscat Capital)**

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**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**  
**AND INDEPENDENT AUDITOR'S REPORT**

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## INDEPENDENT AUDITOR'S REPORT

### TO THE UNITHOLDERS

**SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)**  
**MANAGED BY SICO CAPITAL (Previously known as Muscat Capital)**  
 Riyadh, Kingdom of Saudi Arabia

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of **SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)** ("the Fund"), being managed by SICO Capital (previously known as Muscat Capital) (the "Fund Manager"), which comprise of the financial position as at 31 December 2021 and the statements of comprehensive income, statement of changes in net assets (Equity) attributable to the unitholders and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements statement present fairly, in all material respects, the Financial Position of the Fund as at 31 December 2021, and it's financial performance and it's 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 endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

#### Basis for Unqualified Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") 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 Fund's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters, that in our professional judgement, were of most significance in our audit of 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.

Key audit matter	How the key matter was addressed in our audit
<p><b><i>Investment properties</i></b></p> <p>SICO Saudi REIT Fund owns a portfolio of investment properties comprising of commercial buildings located in the Kingdom of Saudi Arabia.</p> <p>Investment properties are held for capital appreciation and / or rental yields, are stated at cost less accumulated depreciation and any impairment losses.</p>	<p>For impairment of investment properties, we have carried out the following audit procedures:</p> <ul style="list-style-type: none"> <li>- We obtained two valuation reports from independent real estate evaluators Taqeeem certified for each investment properties as at 31 December 2021 and confirmed that the valuation approaches are suitable for use in determining the fair values as at the reporting date;</li> </ul>

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

**TO THE UNITHOLDERS**

**SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)**

**MANAGED BY SICO CAPITAL (Previously known as Muscat Capital)**

**Riyadh, Kingdom of Saudi Arabia**

<b>Key audit matter</b>	<b>How the key matter was addressed in our audit</b>
<b><i>Investment properties</i></b>	
<p>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.</p> <p>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 a formal valuation of the Fund's investment properties on semiannual basis.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>- 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;</li> <li>- 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;</li> <li>- 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 determined that the recoverable amount of the investment properties to be materially higher than the carrying amount of the same; and</li> <li>- We reconciled the average fair value of the investment properties as per the note 12 to the external valuers report.</li> </ul>

**Other information**

Other information consists of the information included in the Fund's 2021 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in the Fund's annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express of 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 when it becomes available 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.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matters to those charged with governance.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### TO THE UNITHOLDERS

**SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)  
MANAGED BY SICO CAPITAL (Previously known as Muscat Capital)**

**Riyadh, Kingdom of Saudi Arabia**

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA and the Fund's Terms and Condition 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, Fund 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 management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

#### **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 audit 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 ISA 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 the 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 ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism 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, we are required to draw attention in our audit 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 audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern.



- INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**TO THE UNITHOLDERS**

**SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)**

**MANAGED BY SICO CAPITAL (Previously known as Muscat Capital)**

**Riyadh, Kingdom of Saudi Arabia**

**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

- 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 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.

For and on behalf of  
**Al Bassam & Co.**

**Ibrahim A. Al-Bassam**  
Certified Public Accountant  
Registration No. 337

Riyadh, Kingdom of Saudi Arabia

28 March 2022  
25 Sha'aban 1443



**SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)****A Real Estate Investments Traded Fund****(Closed-ended fund)****MANAGED BY SICO CAPITAL (Previously known as Muscat Capital)****STATEMENT OF FINANCIAL POSITION****As at 31 December 2021****(Amounts in Saudi Riyals)**

		As at 31 December	
	Notes	2021	2020
<b><u>ASSETS</u></b>			
Cash and cash equivalents	6,13	11,013,952	1,330,686
Investments carried at fair value through profit or loss (FVTPL)	7,13	4,138,964	508,503
Rent receivable	8	-	615,180
Prepayment and other assets		428,747	990,989
Investment properties	9	638,585,000	498,200,740
<b>TOTAL ASSETS</b>		<b>654,166,663</b>	<b>501,646,098</b>
<b><u>LIABILITIES</u></b>			
Accrued expenses and other liabilities	13	379,144	464,403
Unearned rental income	8	1,411,806	-
Islamic Financing	11	150,211,551	-
<b>TOTAL LIABILITIES</b>		<b>152,002,501</b>	<b>464,403</b>
<b>NET ASSETS (EQUITY) VALUE</b>		<b>502,164,162</b>	<b>501,181,695</b>
<b>UNITS IN ISSUE (Number)</b>		<b>57,240,000</b>	<b>57,240,000</b>
<b>PER UNIT VALUE</b>		<b>8.77</b>	<b>8.76</b>
<b>PER UNIT FAIR VALUE</b>	12	<b>8.77</b>	<b>8.76</b>

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

**SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)**  
**A Real Estate Investments Traded Fund**  
**(Closed-ended fund)**  
**MANAGED BY SICO CAPITAL (Previously known as Muscat Capital)**

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**STATEMENT OF COMPREHENSIVE INCOME / (LOSS)**  
**For the year ended 31 December 2021**  
**(Amounts in Saudi Riyals)**

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Net rentals from investment properties	9.1	<b>15,048,014</b>	7,811,852
Net realized and unrealized gain from investments carried at FVTPL	10	<b>130,461</b>	17,463
<b>Total operating income</b>		<b>15,178,475</b>	7,829,315
Impairment reversal / (charge) on investment properties	9	<b>584,446</b>	(53,442,806)
Depreciation expense	9	<b>(9,072,477)</b>	(6,918,818)
Finance cost	11	<b>(3,661,908)</b>	-
Management fee	13	-	(1,166,261)
Other expenses		<b>(2,046,069)</b>	(1,339,728)
<b>Total operating expenses</b>		<b>(14,196,008)</b>	(62,867,613)
<b>Net income / (loss) for the year</b>		<b>982,467</b>	(55,038,298)
Other comprehensive income		-	-
<b>Total comprehensive income / (loss) for the year</b>		<b>982,467</b>	(55,038,298)

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

**SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)**  
**A Real Estate Investments Traded Fund**  
**(Closed-ended fund)**  
**MANAGED BY SICO CAPITAL (Previously known as Muscat Capital)**

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**STATEMENT OF CHANGES IN NET ASSETS (EQUITY)**  
**For the year ended 31 December 2021**  
**(Amounts in Saudi Riyals)**

	<u>Note</u>	<u>2021</u>	<u>2020</u>
<b>Net assets (Equity) value attributable to the Unitholder at beginning of the year</b>		<b>501,181,695</b>	576,826,393
Dividend paid during the year	17	-	(20,606,400)
Total Comprehensive income / (loss) for the year		<b>982,467</b>	(55,038,298)
<b>Net assets (Equity) value attributable to the unitholder at end of the year</b>		<b><u>502,164,162</u></b>	<b><u>501,181,695</u></b>

Transactions in units for the year are summarized as follows:

	<u>2021</u>	<u>2020</u>
<b>Number of units at the beginning of the year</b>	<b>57,240,000</b>	57,240,000
Subscription of units	-	-
Redemption of units	-	-
<b>Number of units at the end of the year</b>	<b><u>57,240,000</u></b>	<b><u>57,240,000</u></b>

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

**SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)**

A Real Estate Investments Traded Fund

(Closed-ended fund)

MANAGED BY SICO CAPITAL (Previously known as Muscat Capital)

**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2021

(Amounts in Saudi Riyals)

	Note	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income / (loss) for the year		982,467	(55,038,298)
<i>Adjustment for</i>			
Depreciation on investment properties	9	9,072,477	6,918,818
Impairment (reversal) / charge on investment property	9	(584,446)	53,442,806
Unrealized gain from investments carried at FVTPL	10	(42,221)	(8,503)
Realized gain from investments carried at FVTPL	10	(88,240)	(8,960)
Finance cost charge		3,661,908	-
		<b>13,001,945</b>	<b>5,305,863</b>
<b>Changes in operating assets:</b>			
Prepayment and other assets		562,242	(826,914)
Purchase of investment property		(148,872,291)	-
Rent receivable		615,180	(84,452)
<b>Changes in operating liabilities:</b>			
Accrued management fee		-	(1,323,320)
Accrued expenses and other liabilities		(85,259)	(181,437)
Unearned rental income		1,411,806	-
<b>Net cash (used in) / generated from operating activities</b>		<b>(133,366,377)</b>	<b>2,889,740</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sale of investments carried at FVTPL		9,500,000	18,048,044
Purchase of investments carried at FVTPL		(13,000,000)	(500,000)
<b>Net (used in) / cash generated from investing activities</b>		<b>(3,500,000)</b>	<b>17,548,044</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Islamic Financing	11	149,891,640	-
Finance cost paid		(3,341,997)	-
Dividend paid during the year	17	-	(20,606,400)
<b>Net cash generated from / (used in) financing activity</b>		<b>146,549,643</b>	<b>(20,606,400)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at the beginning of the year		9,683,266	(168,616)
		<b>1,330,686</b>	<b>1,499,302</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>			
		<b>11,013,952</b>	<b>1,330,686</b>

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

**SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)**  
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**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 equals 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). Also, see Note 18 for changes in fund's terms and conditions.

**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.

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**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 endorsed 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 operational currency.

On 31 December 2019, CMA examined the suitability of continuing to use the cost model or permitting the use of the fair value model or revaluation options and made the following decisions:

1. Obligating listed companies to continue to use the cost model to measure Properties (IAS 16) and Investment Properties (IAS 40) in the financial statements prepared for financial periods within fiscal years, which start before the calendar year 2022; and
2. Allowing listed companies, the policy choice to use the fair value model for investment property subsequent to initial measurement or the policy choice to use the revaluation model for property (IAS 16) and Investment property (IAS 40) subsequent to initial recognition in the financial statements prepared for financial periods within fiscal years starting during the calendar year 2023 or thereafter.

**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.

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### **3. BASIS OF PREPARATION (continued)**

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

##### **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.

##### **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.

##### **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



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### **3. BASIS OF PREPARATION (continued)**

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

##### **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 group 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). However, in view of the current uncertainty due to COVID-19, 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. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

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### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 4.1 New standards, interpretations and amendments

The accounting policies used in the preparation of these financial statements are consistent with those used and disclosed in the annual financial statements of the Fund for the year ended 31 December 2020. There are new standards, amendments and interpretations apply for the first time in 2021, but do not have an impact on the financial statements of the Fund.

There are several other amendments and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements. In the opinion of the Fund's Board, these will have no significant impact on the financial statements of the Fund. The Fund intends to adopt those amendments and interpretations, if applicable.

##### 4.1.1 New standards, amendments to standards and interpretations

###### Amendments

A number of new amendments to standards, enlisted below, are effective this year but they do not have a material effect on the Company's Financial Statements, except for where referenced below.

###### **New amendments to standards issued and applied effective January 1, 2021**

<b>Amendments to standard</b>	<b>Description</b>	<b>Effective for annual years beginning on or after</b>	<b>Summary of the amendment</b>
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	January 1, 2021	These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9.
IFRS 16	Amendments to IFRS 16 Leasing - Covid-19 Related Rent Concessions	April 1, 2021	This amendment extend the exemption from assessing whether a COVID-19-related rent concession is a lease modification for payments originally due on or before June 30, 2022 (rather than payment due on or before June 30, 2021).

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

#### 4.1 New standards, interpretations and amendments (continued)

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

The Fund has not applied the following new and revised IFRSs and amendments to IFRS that have been issued but are not yet effective.

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IAS 37	Onerous Contracts Cost of Fulfilling Contract	January 1, 2022	The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments.
IFRS 16, IFRS 9, IAS 41 and IFRS 1	Annual Improvements to IFRS Standards 2018–2020	January 1, 2022	IFRS 16: The amendment removes the illustration of the reimbursement of leasehold improvements IFRS 9: The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender. The amendment is to be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. IAS 41: The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. IFRS 1: The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation difference.
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022	The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Additionally, the amendments also clarify the meaning of 'testing whether an asset is functioning properly'.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.1 New standards, interpretations and amendments (continued)**

**4.1.2 New standards, amendments and revised IFRS issued but not yet effective (continued)**

<b>Amendments to standard</b>	<b>Description</b>	<b>Effective for annual years beginning on or after</b>	<b>Summary of the amendment</b>
IFRS 3	Reference to the Conceptual Framework	January 1, 2022	The amendment as a whole updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework.
IFRS 17	Insurance Contracts	January 1, 2023	This is comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 (along with its subsequent amendments) will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005.
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023	The amendment has clarified what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right and that only if an embedded derivative in a convertible liability is itself an equity instrument the terms of a liability would not impact its classification.
IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	January 1, 2023	This amendment deals with assisting entities to decide which accounting policies to disclose in their financial statements
IAS 8	Amendment to definition of accounting estimate	January 1, 2023	This amendments regarding the definition of accounting estimates to help entities to distinguish between accounting policies and accounting estimates.
IAS 12	Income taxes	January 1, 2023	This amendment deals with clarification regarding accounting of deferred tax on transactions such as leases and decommissioning obligations
Amendment to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	N/A	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary.

Management anticipates that these new standards interpretations and amendments will be adopted in the Fund's financial statements as and when they are applicable and adoption of these interpretations and amendments may have no material impact on the financial statements of the Fund in the period of initial application.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.2 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.

**4.3 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.

**4.4 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.

**4.5 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.

**4.6 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.

**4.7 Rental Income**

Rental income from an operating lease of the properties is recognized on a straight-line basis over the term of the lease.

**4.8 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

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### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **4.9 *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).

#### **4.10 *Investment transactions***

Investments transactions are accounted for as of the trade date.

#### **4.11 *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.

#### **4.12 *Zakat***

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

#### **4.12 *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.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**4.14 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.

**4.15 Financial instruments**

***Initial recognition and measurement***

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive (loss) / income.

***Classification and measurement of financial instruments***

The Fund classifies its financial assets either as subsequently measured at amortized cost or measured at fair value through profit or loss

***Amortized cost:*** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit (SPPP), and that are not designated at FVTPL, are measured at amortized cost.

***FVTPL:*** If financial asset's cash flows do not represent solely SPPP or if it not held within the held to collect or the held to collect and sell business model, or then it is measured at FVTPL. A gain or loss on a debt investment measured at FVTPL is recognized in the statement of comprehensive (loss) / income, within "Net gain / (loss) in investments mandatorily measured at FVTPL", in the period in which it arises. A gain or loss from debt instruments that were designated at fair value or which are not held for trading are presented separately from debt investments that are mandatorily measured at fair value through profit or loss, within "Net gain / (loss) in investments designated at FVTPL". Profit earned from these financial assets is recognized in the statement of comprehensive (loss) / income using the effective profit rate method.

***Business model:*** The business model reflects how the Fund manages the assets in order to generate cash flows. That is, whether the Fund's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g., financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Fund in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is internally evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in 'other' business model and measured at FVTPL.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**4.15 Financial instruments (continued)**

***Classification and measurement of financial instruments (continued)***

*SPPP*: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Fund assesses whether the financial instruments' cash flows represent solely payment of principal and profit (the "SPPP" test). In making this assessment, the Fund considers whether the contractual cash flows are consistent with a basic lending arrangement i.e., profit includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

***Financial assets***

***Classification of financial assets***

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

A financial asset is measured at amortised cost if it meets both of the following conditions:

- 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 FVTOCI 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 amortised cost or at FVTOCI.

***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 amortised 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 recognised in the statement of comprehensive (loss) / income.



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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**4.15 Financial instruments (continued)**

***Classification and measurement of financial instruments (continued)***

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

	IFRS 9	2021	2020
	Measurement category	Carrying amount	Carrying amount
Cash and cash equivalents	Amortized cost	11,013,952	1,330,686
Investments carried at FVTPL	FVTPL (Mandatory)	4,138,964	508,503
Rent receivable	Amortized cost	-	615,180
Prepayments and other assets	Amortized cost	428,747	990,989
<b>Total financial assets</b>		<b>15,581,663</b>	<b>3,445,358</b>
Unearned rental income	Amortized cost	1,411,806	-
Islamic financing	Amortized cost	150,211,551	-
Accrued expenses and other liabilities	Amortized cost	379,144	464,403
<b>Total financial liabilities</b>		<b>152,002,501</b>	<b>464,403</b>

***Subsequent measurement***

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

<b>Financial assets at FVTPL</b>	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
<b>Financial assets at amortized cost</b>	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 profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

***Reclassifications***

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

# **SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)**

**A Real Estate Investments Traded Fund**

**(Closed-ended fund)**

**MANAGED BY SICO CAPITAL (Previously known as Muscat Capital)**

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## **NOTES TO THE FINANCIAL STATEMENTS**

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**(Amounts in Saudi Riyals)**

### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **4.15 Financial instruments (continued)**

##### ***Derecognition***

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized where 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 the Fund has:

- (a) Transferred substantially all of the risks and rewards of the asset or
- (b) Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Fund's continuing involvement in the asset. In that case, the Fund also recognized an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained. The Fund recognized a financial liability when the obligation under the liability is discharged, cancelled or expired.

##### ***Impairment of financial assets***

The Fund assesses on a forward-looking basis the expected credit loss ("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.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**4.15 Financial instruments (continued)**

***Financial liabilities***

The Fund classifies its financial liabilities at amortised cost unless it has designated liabilities at FVTPL. The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

***Derecognition***

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

***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 derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised 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 recognises the amount adjusting the gross carrying amount as modification gain or loss in the statement of comprehensive (loss) / income.

***Financial liability***

The Fund derecognises 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 recognised at fair value. The difference between the carrying amount of the financial liability distinguished and the new financial liability with modified terms are recognised in the statement of comprehensive (loss) / income.

***Offsetting of financial instruments***

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

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.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**4.16 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.

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.

**5. 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. Due to on-going pandemic situation, the Fund manager has waived the fees since 14 March 2020. Accordingly, no fee was charged during the year ended 31 December 2021.

**- TRANSACTION FEE**

The Fund Manager charges the Fund, a one-time acquisition fee at the rate of 1.5% (2.5% December 2020) percent on the acquisition or sale price of the real estate assets, except for Eskan 4, 5 and 6.

**6. CASH AND CASH EQUIVALENTS**

	<u>Notes</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
Cash at bank	6.1, 12	<b>11,013,952</b>	1,330,686
<b>Total</b>		<b>11,013,952</b>	1,330,686

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

**7. INVESTMENTS CARRIED AT FVTPL**

	<u>Note</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
Muscat Capital Money Market Fund	12	<b>4,138,964</b>	508,503

**SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)**  
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**7. INVESTMENTS CARRIED AT FVTPL (continued)**

The following is the movement in investments during the year

	31 December 2021	31 December 2020
Cost:		
At the beginning of the year	508,503	18,039,084
Additions during the year	13,000,000	500,000
Sold during the year	(9,411,760)	(18,039,084)
At the end of the year	<u>4,096,743</u>	<u>500,000</u>
Change in fair value:		
Changes in fair value during the year	130,461	17,463
Realized during the year	(88,240)	(8,960)
Unrealized at the end of the year	<u>42,221</u>	<u>8,503</u>
Net Investments at the end of the year	<u>4,138,964</u>	<u>508,503</u>

**8. RENT RECEIVABLE / UNEARNED RENTAL**

	31 December 2021	31 December 2020
At the beginning of the year	615,180	530,728
Earned during the year	15,048,014	7,811,852
Received during the year	(17,075,000)	(7,727,400)
Rent receivable / (Unearned rentals) at the end of the year	<u>(1,411,806)</u>	<u>615,180</u>

**9. INVESTMENT PROPERTIES**

**As of 31 December 2021**

	<u>Note</u>	<u>Land</u>	<u>Building</u>	<u>Total</u>
<b><u>Cost</u></b>				
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
<b>Balance as of 31 December 2021</b>		<u>381,549,835</u>	<u>339,722,456</u>	<u>721,272,291</u>
<b><u>Accumulated Depreciation</u></b>				
Balance as of 31 December 2020		-	20,756,454	20,756,454
Charge for the year	9.2	-	9,072,477	9,072,477
<b>Balance as of 31 December 2021</b>		-	<u>29,828,931</u>	<u>29,828,931</u>
<b><u>Accumulated Impairment losses</u></b>				
Balance as of 31 December 2020		-	53,442,806	53,442,806
Reversal for the year		-	(584,446)	(584,446)
<b>Balance as of 31 December 2021</b>		-	<u>52,858,360</u>	<u>52,858,360</u>
<b>Book Value:</b>				
<b>as of 31 December 2021</b>		<u>381,549,835</u>	<u>257,035,165</u>	<u>638,585,000</u>

**SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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**9. INVESTMENT PROPERTIES (continued)**

As of 31 December 2020

	<u>Note</u>	<u>Land</u>	<u>Building</u>	<u>Total</u>
<b><u>Cost</u></b>				
Balance as of 31 December 2019		330,241,376	242,158,624	572,400,000
Additions		-	-	-
<b>Balance as of 31 December 2020</b>		<b>330,241,376</b>	<b>242,158,624</b>	<b>572,400,000</b>
<b><u>Accumulated Depreciation</u></b>				
Balance as of 31 December 2019		-	13,837,636	13,837,636
Charge for the year	9.2	-	6,918,818	6,918,818
<b>Balance as of 31 December 2020</b>		<b>-</b>	<b>20,756,454</b>	<b>20,756,454</b>
<b><u>Accumulated Impairment losses</u></b>				
Balance as of 31 December 2019		-	-	-
Charge for the year		-	53,442,806	53,442,806
<b>Balance as of 31 December 2020</b>		<b>-</b>	<b>53,442,806</b>	<b>53,442,806</b>
<b>Book Value:</b>				
<b>as of 31 December 2020</b>		<b>330,241,376</b>	<b>167,959,364</b>	<b>498,200,740</b>

The investment properties represent the following three properties:

- The Eskan 4 building is located in Makkah with an annual rental income of SAR 12.8M;
- The Eskan 5 building is located in Makkah with an annual rental income of SAR 12.3M;
- The Eskan 6 building is located in Makkah with an annual rental income of SAR 13.5M; and
- The IOffices building is located in Riyadh with annual rental income of SAR 10.45M.

**9.1** The Board of the Fund has agreed with Eskan Development & Investment Company to arrive at a discounted rent amounting to SAR 8 million plus VAT for the period 01 January 2021 to 31 December 2021 due to the on-going pandemic situation.

The Fund commenced receiving full rental amount from IOffices building from 25 March 2021.

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

**10. NET REALIZED AND UNREALIZED GAIN FROM INVESTMENTS CARRIED AT FVTPL**

	<u>31 December 2021</u>	<u>31 December 2020</u>
Unrealized gain from investments carried at FVTPL	42,221	8,503
Realized gain from investments carried at FVTPL	88,240	8,960
<b>Total</b>	<b>130,461</b>	<b>17,463</b>

# SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)

## A Real Estate Investments Traded Fund

(Closed-ended fund)

MANAGED BY SICO CAPITAL (Previously known as Muscat Capital)

### NOTES TO THE FINANCIAL STATEMENTS

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#### 11. 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.

#### 12. 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 **Value Experts**. 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 2021, the valuation of the investment properties are as follows:

	<u>First</u> <u>Appraiser</u>	<u>Second</u> <u>Appraiser</u>	<u>Average</u>
<b><u>31 December 2021</u></b>			
Investment properties	<u>659,800,000</u>	<u>617,370,000</u>	<u>638,585,000</u>
<b>Total</b>	<u><b>659,800,000</b></u>	<u><b>617,370,000</b></u>	<u><b>638,585,000</b></u>
	<u>First</u> <u>Appraiser</u>	<u>Second</u> <u>Appraiser</u>	<u>Average</u>
<b><u>31 December 2020</u></b>			
Investment properties	<u>515,200,000</u>	<u>481,201,480</u>	<u>498,200,740</u>
<b>Total</b>	<u><b>515,200,000</b></u>	<u><b>481,201,480</b></u>	<u><b>498,200,740</b></u>

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:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Estimated fair value of investment properties based on the average of the two valuers used	<u>638,585,000</u>	<u>498,200,740</u>
Less: the carrying value of investment property	<u>(638,585,000)</u>	<u>(498,200,740)</u>
Estimated fair value in surplus of book value	<u>-</u>	<u>-</u>
Units in issue (numbers)	<u><b>57,240,000</b></u>	<u><b>57,240,000</b></u>
Additional value per unit based on fair value	<u>-</u>	<u>-</u>

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**12. EFFECT OF NET ASSET (EQUITY) VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED (continued)**

*Net asset (Equity) value:*

	<u>31 December 2021</u>	<u>31 December 2020</u>
Net assets (Equity) attributable to unitholders as per the financial statements before fair value adjustment	502,164,162	501,181,695
Estimated fair value in surplus of book value	-	-
Net assets (Equity) attributable to unitholders based on fair valuation of investment properties	<u>502,164,162</u>	<u>501,181,695</u>

*Net asset attributable to each unit:*

	<u>31 December 2021</u>	<u>31 December 2020</u>
Net Assets (Equity) value per unit as per the financial statements before fair value adjustment	8.77	8.76
Increase in value per unit based on fair value	-	-
Net assets (Equity) attributable to each unit based on fair valuation	<u>8.77</u>	<u>8.76</u>

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 2021 as follows:

<b>White Cubes</b>			
<b>Properties</b>	<b>Valuation approach</b>	<b>Key inputs and valuation assumptions</b>	<b>Rate</b>
Eskan 4	Income Approach	Capitalization rate	7.5%
Eskan 5	Income Approach	Capitalization rate	7.5%
Eskan 6	Income Approach	Capitalization rate	7.5%
Ioffices	Income Approach	Capitalization rate	7.5%
<b>Value Experts</b>			
<b>Properties</b>	<b>Valuation approach</b>	<b>Key inputs and valuation assumptions</b>	<b>Rate</b>
Eskan 4	DCF	Discount rate	10%
Eskan 5	DCF	Discount rate	10%
Eskan 6	DCF	Discount rate	10%
Ioffices	DCF	Discount rate	10%

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.

**13. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties of the Fund include "Muscat Capital" being the Fund Manager, (Bank Muscat being the shareholder of Muscat 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 till 14 March 2020.



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**13. RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

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:

<u>Related Party</u>	<u>Nature of transaction</u>	<u>31 December 2021</u> <u>Amount of transaction</u>	<u>31 December 2020</u> <u>Amount of transaction</u>
SICO Capital (Previously known as Muscat Capital)	Management fee	-	(1,166,261)
	Structuring and Arranging fee	(2,585,631)	-
	Admin fee	(249,084)	(281,436)
	Others	(37,362)	(86,187)
Riyad Capital	Custodial fees	(175,000)	(175,000)

The balances resulting from related party transactions are as follows:

<u>Related Party</u>	<u>Nature of transaction</u>	<u>31 December 2021</u> <u>Balance</u>	<u>31 December 2020</u> <u>Balance</u>
SICO Capital (Previously known as Muscat Capital)	Management fee **	142,431	142,431
	Admin fee *	(143,136)	(201,603)
	Others *	(3,257)	(12,027)
Riyad Capital	Custodial fees *	(114,940)	(40,565)
Bank Muscat	Current account	2,305	1,330,686
SICO Capital Money Market fund (Previously known as Muscat Capital Money Market fund)	Investments	4,138,964	508,503

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

\*\* This is recorded under prepayments and other assets.

**14. RISK MANAGEMENT**

**14.1 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.

# SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)

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#### 14. RISK MANAGEMENT (Continued)

##### 14.1 Financial 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 Muscat 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:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Effect on Net Assets	206,948	25,425

###### *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:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Effect on Net Assets	1,502,116	-

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

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**14. RISK MANAGEMENT (Continued)**

**14.1 Financial risk management (Continued)**

**(b) Credit risk**

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

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.

<b>Rating of Financial Institution</b>	<b>31 December 2021</b>	<b>31 December 2020</b>
<b>Cash at bank</b>		
BBB+	11,011,647	-
Ba2	2,305	1,330,686
	<b>11,013,952</b>	<b>1,330,686</b>

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

	<b>Note</b>	<b>31 December 2021</b>	<b>31 December 2020</b>
Cash and cash equivalents		11,013,952	1,330,686
Rent Receivable		-	615,180

**(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.

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 2021**

	<b>Carrying amount</b>	<b>Up to three months</b>	<b>More than 3 months and up to one year</b>	<b>More than one year</b>
Islamic financing	150,211,551	150,211,551	-	-
Accrued expenses and other liabilities	379,144	379,144	-	-
	<b>150,590,695</b>	<b>150,590,695</b>	-	-

**SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)**  
**A Real Estate Investments Traded Fund**  
**(Closed-ended fund)**  
**MANAGED BY SICO CAPITAL (Previously known as Muscat Capital)**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2021**

**(Amounts in Saudi Riyals)**

**14. RISK MANAGEMENT (continued)**

**14.1 Financial risk management (continued)**

**(c) Liquidity risk**

**31 December 2019**

	<b>Carrying amount</b>	<b>Up to three months</b>	<b>More than 3 months and up to one year</b>	<b>More than one year</b>
Accrued expenses and other liabilities	464,403	464,403	-	-
	464,403	464,403	-	-

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.

**14.2 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:

- 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, 2021 and 2020 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.

**SICO SAUDI REIT FUND (Previously known as Al Masha’ar REIT Fund)**  
**A Real Estate Investments Traded Fund**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2021**

**(Amounts in Saudi Riyals)**

**14. RISK MANAGEMENT (continued)**

**14.2 Fair value estimation**

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 2021	Carrying value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets measured at fair value</b>					
Investments carried at Fair Value Through Profit or Loss (FVTPL)	4,138,964	-	4,138,964	-	4,138,964

  

31 December 2020	Carrying value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets measured at fair value</b>					
Investments carried at Fair Value Through Profit or Loss (FVTPL)	508,503	-	508,503	-	508,503

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.

**15. 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 2021 and 31 December 2020.

**16. 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.

**17. DIVIDEND DISTRIBUTION**

No dividend is distributed in the year 2021.

**18. CHANGES IN FUNDS TERMS AND CONDITIONS**

The Fund and Conditions were updated on 02 December 2021 in which the new name of the Fund from “Al Masha’r REIT Fund” to “SICO Saudi REIT Fund” and the new name of Fund manager from “Muscat Capital Company” to “SICO Capital Company” is updated. Furthermore, there is a change in the board of directors of the Fund. In addition to it, there is no significant changes in the Terms and Conditions of the Fund.

**SICO SAUDI REIT FUND (Previously known as Al Masha'ar REIT Fund)**  
**A Real Estate Investments Traded Fund**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2021**

**(Amounts in Saudi Riyals)**

**19. EVENTS AFTER THE REPORTING DATE**

In accordance, with the approved terms and conditions of the Fund, On 30 December 2021, the Fund's board of directors recommended to distribute dividends with regards to the six-month period ended 31 December 2021 amounting to SR 0.15 per unit amounting to SR 8,586,000

**20. 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.

**21. COMPARATIVE FIGURES**

Certain prior year amounts have been reclassified to conform with the presentation in the current year.

**22. IMPACT OF CORONAVIRUS (COVID-19) OUTBREAK AND THE GOING CONCERN**

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the fair value. The changing COVID-19 circumstances and the Government, business and customers responses could result in significant adjustments to the fair value in future financial years.

**23. LAST VALUATION DAY**

The last valuation day of the year was at 31 December 2021.

**24. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Fund's Board on 22 March 2022 (Corresponding to 19 Shaban, 1443H).

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

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**Authorized Signatory**