

Oman Real Estate Fund
Notes to the interim unaudited financial statements for the quarter ended 30 June 2021
(Expressed in Omani Rial)

1) Legal status and activities:

Oman REIT Fund ("ORF Fund") is established as a close-ended Oman REIT Fund in the Sultanate of Oman by Shumookh Fund Management LLC. The terms and conditions, investment policies and restrictions of the Fund are set out in its prospectus. The Fund is a close ended fund and it commenced operations on 28 February 2021.

Oman REIT Fund is managed by Shumookh Fund Management LLC (Investment manager), are related party, under the overall control of ORF Fund's Management Body (FMB). FMB is an investors committee who is responsible for the supervision of the affairs of the Funds.

The Fund is registered with the Capital Market Authority ("the CMA") and also listed in Muscat Securities Market ("MSM"). National Bank of Oman SAOG has been appointed as the custodian & administration of the fund.

The principal activity of the fund is to generate Income from real-estate rentals and long-term capital appreciation by investing in real estate assets in Oman. Key Objectives

Key objectives of Oman REIT are:

- to provide Unitholders with regular and stable distributions, and
- to achieve long-term growth in Dividend Per Unit (DPU) and the net asset value (NAV) per Unit, while maintaining an appropriate capital structure

Total capital of the fund is OMR 65,475,894, and the number of units are 654,758,940. The fund was open for initial subscription on 17th January 2021 till 08th of February 2021. The term of the Real Estate Investment Fund is 99 calendar years from the date of registration in the Funds registry in the Capital Market Authority or until the liquidation of the fund

2) Summary of significant accounting policies:

- (a) **Statement of compliance:** The interim financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' and the applicable minimum disclosure requirements set out in the Rules and Guidelines on Disclosure issued by the Capital Market Authority (CMA).
- (b) **Basis of Preparation:** The interim financial statements have been prepared on actual cost and estimated provisional cost except for financial investment fair value through profit and loss which have been measured at fair value. The preparation of interim financial statements in conformity with IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the fund accounting policies.
- (c) **Functional Currency:** These interim financial statements have been presented in Omani Rial (RO) which is the functional and reporting currency of the Fund.
- (d) **Standards, amendments and interpretations effective and adopted in the annual period beginning on or after 1 January 2021:** ORF Fund has adopted all standards and amendments for the first time for the annual reporting period beginning from 1 January 2021, while has accounted for and disclosed only the relevant and applicable standards and amendments.
- (e) **Standards, amendments and interpretations to existing IFRS that are not yet effective:** At end of the reporting period certain new & revised standards and amendments are in issue but not yet effective for the annual reporting period beginning from 01th January 2021.

ORF fund believes the adaptation of those new standards and amendment's which are in issue but not yet effective is not likely to have any material impact on the recognition, measurement, presentation and discloser of the items in the financial statement for the future period. Income consists of rental income, interest income & other income.

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Summary of significant accounting policies (continued)

A) Assets

ORF Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cashflow characteristics of the financial assets. At initial recognition, the Fund measures a financial asset at its fair value. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. ORF fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. ORF fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. Consequently, Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR).

The Fund applies expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets

ECLs are the probability-weighted estimate of credit losses (i.e. present value of all cash shortfalls) over the expected life of the financial asset. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that the Fund expects to receive. The ECL consider the amount and timing of payments and, hence, a credit loss arises even if the Fund expects to receive the payment in full but later than when contractually due. The ECL method requires assessing credit risk, default and timing of collection since initial recognition. This requires recognising allowance for ECL in the profit or loss even for receivables that are newly originated or acquired.

Impairment of financial assets is measured as either 12 months ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. '12 months ECL' represents the ECL resulting from default events that are possible within 12 months after the reporting date. 'Lifetime ECL' represent the ECL that result from all possible default events over the expected life of the financial asset.

Receivables are of a short duration, normally less than 12 months and hence the loss allowance measured as lifetime ECL does not differ from that measured as 12 months ECL. The Fund uses the practical expedient in IFRS 9 for measuring ECL for receivables using a provisioning matrix based on ageing of the trade receivables.

B) Liabilities

The Fund determines the classification of its financial liabilities at initial recognition. The classification depends on the business model for managing the financial liabilities and the contractual terms of the cash flows.

The financial liabilities are classified in the following measurement categories:

- a) those to be measured as financial liabilities at fair value through profit or loss; and
- b) those to be measured at amortized cost.

C) Recognition, derecognition and measurement,

Financial assets and financial liabilities at fair value through profit or loss are initially recognized at fair value. Transaction costs are expensed as incurred in the statement of comprehensive income.

Financial assets are derecognized when the right store receive cash flows from the investment share value.

Cash and cash equivalents and other receivable, are subject to the impairment requirements of IFRS 9. At each reporting date, ORF fund measures the loss allowance at an amount equal to the life time expected credit losses.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income in the period in which they arise.

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Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income with in dividend income when the ORF Fund's right to receive payments is established. Interest on debt securities at fair value through profit or loss is recognised in the statement of comprehensive income.

Summary of significant accounting policies (continued)

D) Impairment of financial assets

Cash and cash equivalents and other receivable, are subject to the impairment requirements of IFRS 9. At each reporting date, ORF Fund measures the loss allowance at an amount equal to the life time expected credit losses

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount

E) Fair value measurement

'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 in the principal or, in its absence, the most advantageous market to which ORF Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, ORF Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. ORF Fund measures instruments quoted in an active market at a market closing price.

F) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include investments with short maturity of three months or less from the date of acquisition and cash or bank balances with brokers.

G) Accruals and other payables

Accruals and other payables are recognized initially at fair value and subsequently stated at amortized cost.

H) Taxation

ORF Fund is domiciled in the Sultanate of Oman. Under the current tax laws of the Sultanate of Oman, there is only VAT taxes payable by ORF Fund.

I) Foreign currency transactions

Transactions denominated in foreign currencies are translated into Rial Omani at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated into Rial Omani at exchange rates prevailing at the end of the reporting period. Differences on foreign currency exchange are dealt with in the statement of comprehensive income.

Foreign currency exchange differences arising on retranslation are recognized in profit or loss as net foreign currency exchange losses.

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Summary of significant accounting policies (continued)

J) Distributions payable to the unitholders

Proposed distributions to unitholders are recognized in the statement of net assets attributable to the unitholders when they are approved at the Fund Management Body meeting.

K) Transaction cost

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. This includes fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognized in statement of comprehensive income.

L) Estimates and judgments

In preparing the financial statements, management has made judgements, estimates and assumptions which affect the application of accounting policies and the reported income and expenses, assets, liabilities and related disclosures. Actual results in future could differ from such estimates.

The use of available information and application of judgment based on historical experience and other factors are inherent in the formation of estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Information about judgements made in applying accounting policies that have most significant effect on the amounts recognized in the financial statements is classification of financial assets.

3) Financial assets at fair value through profit or loss

The movement in financial assets at fair value through profit or loss during the period/year is:

	<u>30-06-2021</u>	<u>31-12-2020</u>
	<u>RO</u>	<u>RO</u>
At the beginning of period/year	65,475,894	N/A
Purchase of financial assets during the period/year	----	N/A
At the end of reporting period/year	65,475,894	---

The Fund initial portfolio is comprised 20 properties located at various locations in the Sultanate of Oman, with an aggregate built up area of approximately 196,000 square metres with around 488 leases as at 31 August 2020. The appraised value of the IPO Portfolio is approximately RO 64.5 million as at 31 August 2020 based on the aggregate of independent valuations for each of the Property conducted by a reputed Independent Property Valuation Agency. It includes residential, office, retail and logistics sectors.

Out of all 20 properties 15 are freehold and 5 are leased.

4) Cash or Cash Equivalent

(a) Bank Accounts

	30-06-2021	30 06 2020
	RO	RO
Call Deposit account	2,615,736	N/A

(b) Balances placed in call deposits with commercial banks earn interest of 1.75% per annum.

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5) Prepayments.

	<u>31-03-2021</u>	<u>31-12-2020</u>
	<u>RO</u>	<u>RO</u>
Prepayments	120,394	-
Other receivables	2,185,570	-
Allowances for Bad debt	13,900	-
VAT Input	20,287	-
	2,340,151	-

Prepayments include the CMA yearly fees, prepaid insurance for one year starting from 01-04-2021 till 31-03-2022, fund establishment charges divided in two quarters.

Other receivables include receivable from tenant and other related and management parties. Allowances for bad debt include those who have legal cases & VAT paid in term of fees or other utility bills at 5% of the billing amount from 16-04-2021 till 30-06-2021. The VAT is receivable or adjusted with VAT payables as per laws of tax authority.

6) Account payables & Other Liabilities.

	<u>31-03-2021</u>	<u>31-12-2020</u>
	<u>RO</u>	<u>RO</u>
Payables	730,754	-
Other Payables (IPO amount)	2,628,139	-
Unearned revenue	52,500	-
Security Deposits	19,188	-
VAT Output	41,184	-
	3,471,765	-

Payables include related party management fee of Shumookh Fund Management LLC, maintenance and operating fees from property managers, Custodian & Administration Fees. In other payables, the amount received from IPO, the balance has to be paid to the original owners for the transfer of properties.

Unearned revenue is the rental amount paid in advance by the tenants beyond 30-06-2021. Security deposit are payable as per demand or end of lease or adjusted if any utility bill or rental payment is unpaid.

VAT receivables from commercial tenants at 5% of lease value from 16-04-2021 till 30-06-2021. The VAT is Payable to tax authority as per the law.

7) Related Party Transaction

During the period, ORF Fund enters into transactions in the ordinary course of business with entities over which certain members of the Fund management Body have a significant influence. These transactions are entered into on terms which the Fund Management Body considers correspond to those that could be obtained through normal arm's length transaction with third party.

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- (a) The nature and volume of significant related party transactions entered during the period were as follows:

	01-01-2020 to 30-06-2021 RO	01-01-2020 to 30-06-2020 RO
Fund Management Body fees (Board member's fee)	15,600	-
Management fee	220,645	-

- (b) The following amounts due to related parties are not subject to interest and payable in accordance with the terms of the agreement approved by the Fund Management Body.

	30-06-2021 RO	31-12-2020 RO
Management fees	220,645	-

Shumookh Fund Management LLC is entitled for 1% per annum of the investment value from the date of incorporation of the fund which is 28-02-2021. The amount is calculated quarterly and paid in subsequent month.

8) Taxation

In accordance with Article 117 of the Income Tax Law, income accruing to investment funds set up in Sultanate of Oman, under the Capital Market Authority Law, is exempt for tax. Only VAT is applicable.

9) Unit Capital

The capital structure of the Fund is listed below:

- (a) Units issued and subscribed as at 28 March 2021 comprises 654,758,940 fully paid units of RO 0.100 baiza each.
- (b) At the reporting date, following are the major unit holders of the Fund's units,

	30-06-2021		31-12-2020	
	%	Units	%	Units
MODPF	64	421,242,886	-	-
Technical Trading Co. LLC	14	94,681,537	-	-
Said Saleh Al Hinai & Saif Saleh Al Hinai	08	49,692,861	-	-
HEIRS OF SALEH AL HINAI	04	26,946,568	-	-

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10) Net Asset Value (NAV) per unit

Net asset value per unit is calculated by dividing the net assets at the end of the quarter/year by the number of units outstanding as follows:

	<u>30-06-2021</u>	<u>31-12-2020</u>
	<u>RO</u>	<u>RO</u>
Net assets attributable to the unitholders (RO)	66,960,016	-
Number of outstanding units at the end of period	654,758,940	-
Net Asset Value (NAV) per unit (RO)	0.102	-

11) Management, administration and custodian service fee

Shumookh Fund Management LLC is the Managers for ORF Fund. National Bank of Oman SAOG is the Administrator and Custodian of ORF Fund.

A management fee of 1% per annum on Net investment Value to be accrued and paid quarterly in arrears. RO 220,645 is calculated as of 30-06-2021 and is payable.

A custodian and administration fees of RO 19,585 (30 June 2020) is payable to the Custodian for the period. The custodian fee includes 0.09% per annum of the Net Asset Value, subject to a minimum of RO 35,000 per annum.

These fees are calculated on a monthly basis on the net asset value of ORF Fund in accordance with the terms and conditions agreed with the Investment Manager, Administrator and Custodian as approved by the Fund Management Body

12) General and administrative expenses

	<u>01-01-2021 to 01-01-2020 to</u>	
	<u>30-06-2021</u>	<u>30-06-2020</u>
	<u>RO</u>	<u>RO</u>
Management Fees (Note 7)	220,645	-
Bank Charges	54	-
Authority Fees	12,397	-
Board Member Fees (Note 7)	15,600	-
Preliminary Expenses	96,684	-
Legal Consultancy	2,169	-
Insurance Expenses	3,689	-
Administration & Custodian Charges (Note 11)	19,812	-
	371,050	-

Preliminary expenses are the expenses done for the establishing the fund and calculated as actuals, it

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includes lawyers fee, valuation fees of the buildings, marketing fees, CMA fees, MSD fees, collecting agents fee and other expenses. The total expenses are RO 293,255 out of which RO 99,887 is collected through IPO and remaining will be collected from the fund. The expenses are divided in two quarters.

Fund legal consultants are Omar Al Hashmi Legal Consultancy Bureau, the expenses are taken on actuals.

Authority fee include the CMA yearly fees for 2021, Insurance expenses for one year starting from 01-04-2021 till 31-03-2022.

Bank charges are at actual as per the normal charges as transfer fees and others.

13) Income

Rental income is calculated as per the leased contract on actuals for the period of 01-01-2021 till 30-06-2021.

Other income is not leased income, received from sign board.

Balances placed in call deposits with commercial banks earn interest of 3.5% per annum, term as interest income.

	01-01-2020 to 30-06-2021 RO	01-01-2020 to 30-06-2020 RO
Income (rental)	2,361,398	-
Income (others)	335	-
Income (Interest)	11,813	-

No income counted from building SULAIMI HEAD QUARTERS* (17), BUILDING NO 42 (14), BAIT SALEH BUILDING (13) and MAWADADAH COMPLEX (16).

14) Operational Expenses

These are direct expenses for managing the building and daily repair maintenance expenses also utility bills payment. Operating expenses are 5% of the total lease amount all MODPF building except Misfah, Lulu Salalah and KOM, Operating expenses 15% of the total collection for KOM 4 building. Maintenance expenses are booked as on actual for all buildings.

	01-01-2020 to 30-06-2021 RO	01-01-2020 to 30-06-2020 RO
Property Maintenance Expenses	413,301	-
Property Operating Expenses	105,300	-

No expenses counted from building SULAIMI HEAD QUARTERS* (17), BUILDING NO 42 (14), BAIT SALEH BUILDING (13) and MAWADADAH COMPLEX (16).

M) Capital management

The Fund's objectives, when managing capital, are to safeguard its ability to continue as a going concern in order to provide returns for the unit holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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In order to maintain or adjust the capital structure, the Fund may adjust the number of dividends, return capital to unit holders, issue new units or sell assets to reduce debt.

N) Dividend distribution

Oman REIT Fund's dividend policy is subject to restrictions contained in the Regulation for Real Estate Investment Funds issued by Oman's CMA, its articles and the covenants of the agreements with the lender, if any. These are summarized as follows,

- In accordance with the Regulation for Real Estate Investment Funds, in each financial year, shall distribute not less than 90% of its annual realized net profits to the investment unitholders.
- In accordance with the Articles, any profit remaining after distribution to the Unitholders may be carried forward on the Board's recommendation.

O) Financial risk management

ORF Fund's activities expose it to a variety of financial risks. ORF Fund's objective of risk management policy seeks to maximize the returns derived for the risk levels to which ORF Fund is exposed and seeks to minimize potential adverse effects on ORF Fund's financial performance.

Management Body of ORF Fund is responsible for the overall risk management and has delegated the responsibility to the Investment Manager. Risk management is carried out by the Investment Manager under policies approved by the Management Body. ORF Fund's Investment Prospectus and Investment Management Agreement detail its investment policy and broad level guidelines that encompasses its overall investment strategy, its tolerance for risk and its general risk management approach.

These risk levels are measured and monitored on a continuous basis and compliance with the prescribed risk levels are reported by the Investment Manager to the Management Body on a quarterly basis. All financial assets present a risk of loss of capital. The maximum loss of capital on such financial assets is limited to the measured value of those positions.

Financial instruments of ORF Fund include cash and cash equivalents, receivables and other payables. ORF Fund's activities expose it to a variety of financial risks from financial instruments, such as

- (a) market risk (including interest rate risk and price risk);
- (b) credit risk; and
- (c) liquidity risk.

(a) Market Risk,

'Market risk' is the risk that changes in market prices such as interest rates, foreign exchange rates and drop in rental prices will affect ORF Fund's income or the fair value of its holdings of financial instruments.

'Price risk' is the risk that fair value of the financial investment will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer or factors affecting all instruments traded in the market. ORF Fund is also exposed to sudden decrease in rental price risk.

(b) Credit risk

May arise if the tenant didn't pay us the rent due to any natural or unnatural circumstances. The Fund attempts to control credit risk with regards to tenants by monitoring credit exposures.

(c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with financial instruments. In accordance with prudent liquidity risk management, the Fund aim to maintain sufficient cash. Management monitors rolling forecasts of the Fund's liquidity reserve comprising cash and cash equivalents on the basis of expected cash outflows.