

OMAN REIT FUND

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION FOR THE PERIOD ENDED 30 JUNE 2023

1 Legal status of the Fund

Oman REIT Fund (the "Fund") is a Real Estate Investment Fund (REIT) registered in the Sultanate of Oman and constituted as a joint investment account as per the Regulations of the Capital Market Authority ("CMA") of Sultanate of Oman. The term of the Fund is 99 calendar years from the date of registration in the fund's registry in CMA or until the liquidation of the Fund.

The Fund was established by Trust Fund Management SPC (the "Previous Fund Manager"), a Single Person Company registered in the Sultanate of Oman in accordance with the Commercial Companies Law of Oman, as amended, and approved by the CMA in accordance with the administrative decision No. 84/2020 on 20 December 2020. On 7 July 2022, FIM Partners Muscat SPC, a Single Person Company registered in the Sultanate of Oman in accordance with the Commercial Companies Law of Oman, was appointed as the fund manager for the Fund (the "Fund Manager") and replaced the Previous Fund Manager.

During 2021, the Fund proceeded with an initial public offering (IPO). The Fund closed its IPO on 9 February 2021 and its units were listed on the Muscat Stock Exchange on 28 February 2021.

The major unitholder is Ministry of Defence Pension Fund ("MODPF") which holds 89.4%.

The registered address of the Fund is P.O. Box 1963, Postal Code 130, Bousher, Sultanate of Oman.

2 Principal activities

The principal activities of the Fund are investing, directly or indirectly, in a diversified portfolio of income-producing real estate assets in Oman that are used primarily for residence, office, light industrial/logistics and retail purposes, as well as real estate-related assets in connection with the foregoing.

3 Summary of significant accounting policies

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of the statutory financial statements for the year ended 31 December 2022.

4 Rental income

	(Unaudited) Six-month period ended 30 June 2023 RO	(Unaudited) Six-month period ended 30 June 2022 RO
Rental income	1,888,139	1,857,503

Information regarding the Fund's operating segments is set out below in accordance with IFRS 8 - *Operating segments*. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Fund that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Fund operates in one business segment. No geographical analysis has been disclosed as 100% of the Fund's revenue is from customers based in the Sultanate of Oman.

5 Other income

	(Unaudited)	(Unaudited)
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	Six-month period ended 30 June 2023 RO	Six-month period ended 30 June 2022 RO
Interest income	52,068	33,848
Parking fees	14,694	6,600
	<u>66,762</u>	<u>40,448</u>

6 Management fees

	(Unaudited) Six-month period ended 30 June 2023 RO	(Unaudited) Six-month period ended 30 June 2022 RO
Management fees (note 18)	<u>214,090</u>	<u>237,692</u>

In accordance with the Investment Management Agreement entered between the Fund and Fund Manager dated 7 July 2022, the Fund Manager is entitled to receive a management fee calculated at a rate of 0.9% per annum of the Fund's NAV, calculated on a monthly basis and payable quarterly in arrears.

7 General and administrative expenses

	(Unaudited) Six-month period ended 30 June 2023 RO	(Unaudited) Six-month period ended 30 June 2022 RO
Fees and subscription	19,627	19,809
Custodian fees (note 18)	12,893	16,836
Insurance expense	9,766	8,303
Legal and professional expenses	600	13,257
Allowance for expected credit losses	8,524	1,800
Other expenses	15,400	7,735
VAT expense	5,605	6,841
	<u>72,415</u>	<u>74,581</u>

8 Basic and diluted earnings per unit

Basic earnings per unit are calculated by dividing the profit for the period by the weighted average number of eligible units outstanding during the period.

	(Unaudited) Six-month period ended 30 June 2023	(Unaudited) Six-month period ended 30 June 2022
Profit attributable to unitholders of the Fund (RO)	1,094,512	948,758
Weighted average number of eligible units	471,186,386	471,186,386
Basic earnings per unit (RO)	<u>0.002</u>	<u>0.002</u>

The diluted earnings per unit are identical to the basic earnings per unit as there are no dilutive potential equity instruments.

9 Investment properties

(Unaudited) 30 June 2023	(Audited) 31 December 2022
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	RO	RO
Opening balance	44,536,000	44,420,000
Net gain on fair value of investment properties	-	116,000
Closing balance	44,536,000	44,536,000

The Fund's investment properties comprise of buildings held for rental income and capital appreciation which are located in the Sultanate of Oman.

Note 19 sets out how the fair value of the investment properties has been determined.

Details of the investment properties are as follows:

	(Unaudited) 30 June 2023 RO	(Audited) 31 December 2022 RO
KOM 4 (i)	14,300,000	14,300,000
Oasis mall	6,600,000	6,600,000
Misfah Warehouse (ii)	4,050,000	4,050,000
E&Y building	3,500,000	3,500,000
Bait Al Sharq	3,620,000	3,620,000
Alwafi Complex	2,340,000	2,340,000
Bait Moznah	1,730,000	1,730,000
City Residence	1,900,000	1,900,000
Chinese Village	1,575,000	1,575,000
Orchid Complex	925,000	925,000
Mawalah Warehouse	890,000	890,000
Lulu Salalah	890,000	890,000
Bait Al Majd	660,000	660,000
Bait Ruwi	660,000	660,000
Bait Al Qurum	546,000	546,000
Rusail factory	350,000	350,000
	44,536,000	44,536,000

The Fund received control over all the investment properties during the period ended 31 December 2021 against which it had issued units to the unitholders. At 31 December 2022, the title deeds of the properties were held in the name of the Fund, except for (i), which was acquired by the Fund on leasehold terms, and (ii) which was held in the name of a related party of the major unitholder, MODPF, for the beneficial interest of the Fund.

- i. The Fund has received the property, KOM 4, on leasehold terms for a period of 99 years. Accordingly, the property is recorded as a right-of-use asset and carried at fair value at the reporting date.
- ii. Misfah Warehouse property was previously registered in the name of Al Misfah Real Estate Service and Development SPC, a related party of MODPF and mortgaged with a local commercial bank against a loan taken by MODPF. During 2022, the related party cleared the bank loan and released the mortgage with the bank. During the quarter ended 31 March 2023, transfer of the title deed of Misfah Warehouse was completed in the name of the Fund.

9 Investment properties (continued)

Details of the property income during the period are as follows:

(Unaudited) Six-month period ended	(Unaudited) Six-month period ended
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	30 June 2023 RO	30 June 2022 RO
Rental income (note 4)	1,888,139	1,857,503
Property operating expenses	<u>(558,734)</u>	<u>(618,720)</u>
Net property income	<u>1,329,405</u>	<u>1,238,783</u>

10 Accounts receivable

	(Unaudited) 30 June 2023 RO	(Audited) 31 December 2022 RO
Financial assets:		
Accounts receivable	819,144	1,264,373
Less: allowance for expected credit losses	<u>(17,524)</u>	<u>(9,000)</u>
	<u>801,620</u>	<u>1,255,373</u>

All amounts are short-term. The net carrying value of accounts receivable is considered a reasonable approximation of fair value. Outstanding balances at the period-end are unsecured, interest free and settlement occurs in cash.

11 Other receivables

	(Unaudited) 30 June 2023 RO	(Audited) 31 December 2022 RO
Non-financial assets:		
Prepayments	36,436	4,604
Others	<u>18,515</u>	<u>9,207</u>
	<u>54,951</u>	<u>13,811</u>

All amounts are short-term. The net carrying value of other receivables is considered a reasonable approximation of fair value.

12 Bank balances

	(Unaudited) 30 June 2023 RO	(Audited) 31 December 2022 RO
Fixed deposit	2,000,000	-
Cash at bank	<u>965,164</u>	<u>2,645,025</u>
	<u>2,965,164</u>	<u>2,645,025</u>

Fixed deposit carries an interest rate of 4.75% (2022: Nil) p.a. with original maturity of one year.

Bank balances include balances with reputed commercial banks in Oman and are denominated in Omani Rial. The management believes that the expected credit loss is immaterial to the condensed interim financial information.

There are no restrictions on bank balances at the time of approval of this condensed interim financial information.

13 Accounts payable

	(Unaudited) 30 June 2023 RO	(Audited) 31 December 2022 RO
Financial liabilities:		
Management fee payable (note18)	112,590	113,966
Accounts payable	<u>100,847</u>	<u>142,633</u>

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<u>213,437</u>	<u>256,599</u>
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All amounts are short-term. The carrying values of accounts payable are considered to be a reasonable approximation of fair values.

14 Other payables

	(Unaudited) 30 June 2023 RO	(Audited) 31 December 2022 RO
Financial liabilities:		
Other payables	45,388	49,816
Custodian fee payable (note 18)	6,806	6,881
Non-financial liabilities:		
Provision for stamp duty on investment properties	-	60,012
Security deposits	36,041	40,096
Unearned income	148,125	139,650
	<u>236,360</u>	<u>296,455</u>

All amounts are short-term. The carrying values of other payables are considered to be a reasonable approximation of fair values.

15 Net asset value per unit

Net asset value per unit is calculated by dividing the amount of equity attributable to the unitholders of the Fund at the reporting date by the number of units outstanding at the reporting date as follows:

	(Unaudited) 30 June 2023	(Audited) 31 December 2022
Net assets (RO)	47,907,938	47,897,155
Number of units outstanding at the reporting date	471,186,386	471,186,386
Net asset value per unit (RO)	<u>0.102</u>	<u>0.102</u>

16 Dividends

During 2022, pursuant to the Board of Directors meetings held on 4 July 2022, 27 July 2022 and 20 October 2022, the Fund had announced cash dividends of RO 0.001 per unit, RO 0.001 per unit and RO 0.001 per unit, respectively, on the basis of quarterly financial statements of the Fund. Accordingly, dividends amounting to RO 471,186, RO 471,186 and RO 471,186 were paid in July 2022, August 2022 and November 2022 respectively. During 2023, pursuant to the Board of Directors meetings held on 27 February 2023 and 18 April 2023, the Fund announced cash dividends of RO 0.0011 per unit (aggregating to RO 518,305) and RO 0.0012 per unit (aggregating to RO 565,424) which were paid during the quarters ended 31 March 2023 and 30 June 2023 respectively.

17 Taxation

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

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18 Related party transactions and balances

The Fund enters into certain transactions in the ordinary course of business with the unitholders, Board members of the Fund, Fund manager and entities under their control.

During the period, transactions with related parties were as follows:

	(Unaudited) Six-month period ended 30 June 2023 RO	(Unaudited) Six-month period ended 30 June 2022 RO
Rental income	-	767,118
Property operating expenses	-	251,814
Management fees (note 6) – Fund Manager	214,090	237,692
Administration and custodian expenses (note 7)	12,893	16,836
Board member fees	15,150	18,200

Balances with related parties in the condensed interim statement of financial position are as follows:

	(Unaudited) 30 June 2023 RO	(Audited) 31 December 2022 RO
Due to related parties:		
Management fee payable (note 13) – Fund Manager	112,590	113,966
Custodian fee payable (note 14)	6,806	6,881
	<u>119,396</u>	<u>120,847</u>

KOM 4 (Madayn) was a related party for a part of the year in 2022 and is not a related party during the period 2023.

Outstanding balances at the period end are unsecured, interest free, repayable on demand and settlement occurs in cash. There have been no guarantees provided or received for any related party balances.

19 Fair value measurement

(a) Financial instruments

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances and accounts receivable. Financial liabilities consist of accounts and other payables. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair values of financial assets and liabilities are not materially different from their carrying values.

(b) Non-financial instruments

Description of valuation techniques used and key inputs to valuation of investment properties:

	Valuation technique	Significant unobservable inputs	2022
Investment properties	Income approach (investment method)	Growth rate	5% - 10%
		Terminal rate	7.3% - 11%
		Discount rate	9%
		Equivalent Cap rate	5.3% - 9.4%
	Cost approach	Direct cost	10%
		Land rate	RO 325 per sqm

19 Fair value (continued)

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Investment properties are stated at fair values, determined based on independent valuations performed by an independent third party, based on market basis, supported by market evidence.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in the long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and exit yield), and an opposite change in the long-term vacancy rate.

The following table provides the fair value measurement hierarchy of the Fund's assets.

	Date of valuation	Fair value measurement using	
		Total RO	Significant unobservable inputs (Level 3) RO
Investment properties (note 9)	31 December 2022	<u>44,536,000</u>	<u>44,536,000</u>

The investment properties were revalued as at 31 December 2022. Management determined that the effect of changes in fair values between the last valuation and the reporting date is immaterial.

20 Contingencies and commitments

20.1 Contingent liabilities

There were no contingencies as at the reporting date (2022: RO Nil).

21 Significant accounting judgements, estimates and assumptions

The preparation of the Fund's condensed interim financial information requires management to make judgements, 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.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Fund based its assumptions and estimates on parameters available when the condensed interim financial information was prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Fund. Such changes are reflected in the assumptions when they occur.

Fair valuation measurement

Management uses valuation techniques to determine the fair value of financial instruments and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the asset. Management bases its assumptions on observable data as far as possible, but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (note 9).

21 Significant accounting judgements, estimates and assumptions (continued)

Provision for expected credit losses on accounts receivable

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The Fund utilizes a combination of actual bad debts and a credit loss estimation approach to calculate the ECLs for accounts receivable.

The provisions are initially based on the Fund's historical data on the number of days past due date, which the Fund complements with a holistic assessment of current information and forward-looking estimates.

The assessment of the ECLs is a significant estimate. The Fund's historical credit loss experience and forecast of other conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Fund's accounts receivable is disclosed in note 10.

Provision for expected credit losses on cash at bank

Although cash at bank is subject to the impairment requirement of IFRS 9, the identified impairment loss was immaterial.

22 Subsequent events after the reporting date

There was a material subsequent event whereby, the Fund has secured a Shariah-compliant term facility from Muzn Islamic Bank on 12 July 2023 amounting to RO 30 million for a term of 14 years. The Fund acquired a property in Wadi Kabir, Muscat, leased to Nesto Hypermarket. The acquisition was fully financed from the first tranche of term facility.

Other than the event highlighted above, no adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization of this condensed interim financial information.