

OMAN REIT FUND

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION FOR THE PERIOD ENDED 30 SEPTEMBER 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 funds 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.

The major unitholder of the Fund 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.

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) Nine-month period ended 30 September 2023 RO	(Unaudited) Nine-month period ended 30 September 2022 RO
Rental income	<u>2,981,602</u>	<u>2,745,155</u>

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) Nine-month period ended 30 September 2023 RO	(Unaudited) Nine-month period ended 30 September 2022 RO
Interest income	74,645	53,394
Parking fees	40,251	33,460
	<u>114,896</u>	<u>86,854</u>

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FOR THE PERIOD ENDED 30 SEPTEMBER 2023****6 Management fees**

	(Unaudited) Nine-month period ended 30 September 2023 RO	(Unaudited) Nine-month period ended 30 September 2022 RO
Management fees (note 20)	322,841	346,886

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) Nine-month period ended 30 September 2023 RO	(Unaudited) Nine-month period ended 30 September 2022 RO
Fees and subscription	29,789	31,571
Custodian fees (note 20)	19,375	23,389
Legal and professional expenses	11,096	21,257
Insurance expense	16,205	13,009
Allowance for expected credit losses	13,095	1,800
Others	23,503	36,894
	113,063	127,920

8 Finance cost

	(Unaudited) Nine-month period ended 30 September 2023 RO	(Unaudited) Nine-month period ended 30 September 2022 RO
Interest expense on borrowings	97,761	-
Other bank charges	235	152
	97,996	152

9 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) Nine-month period ended 30 September 2023	(Unaudited) Nine-month period ended 30 September 2022
Profit attributable to unitholders of the Fund (RO)	1,687,305	1,440,342
Weighted average number of eligible units	471,186,386	471,186,386
Basic earnings per unit (RO)	0.0036	0.0031

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

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FOR THE PERIOD ENDED 30 SEPTEMBER 2023****10 Investment properties**

	(Unaudited) 30 September 2023 RO	(Audited) 31 December 2022 RO
Opening balance	44,536,000	44,420,000
Additions	7,615,691	-
Net gain on fair value of investment properties	-	116,000
Closing balance	52,151,691	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 21 sets out how the fair value of the investment properties has been determined.

Details of the investment properties are as follows:

	(Unaudited) 30 September 2023 RO	(Audited) 31 December 2022 RO
KOM-4 (i)	14,300,000	14,300,000
Nesto Wadi Kabir (iii)	7,615,691	-
Oasis Mall	6,600,000	6,600,000
Misfah Warehouse (ii)	4,050,000	4,050,000
Qurum Office 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
Mawalal 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
	52,151,691	44,536,000

The Fund received control over all the investment properties except (iii) 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 acquired KOM 4 property 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.
- iii. During the period ended 30 September 2023, the fund acquired Nesto Wadi Kabir property through a Shariah-compliant bank facility from Muzn Islamic Bank (Note 14). The property is currently under the joint ownership of the Fund and bank as security for the facility obtained by the Fund.

At the reporting date, Misfah Warehouse and Qurum Office Building have been mortgaged as securities for facility obtained by the Fund (Note 14). The remaining properties are also in the process of being mortgaged for the remaining undrawn facility amounting to RO 22.5 million.

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FOR THE PERIOD ENDED 30 SEPTEMBER 2023****10 Investment properties (continued)**

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

	(Unaudited) Nine-month period ended 30 September 2023 RO	(Unaudited) Nine-month period ended 30 September 2022 RO
Rental income (note 4)	2,981,602	2,745,155
Property operating expenses	(855,343)	(888,409)
Net property income	<u>2,126,259</u>	<u>1,856,746</u>

11 Accounts receivable

	(Unaudited) 30 September 2023 RO	(Audited) 31 December 2022 RO
Financial assets:		
Accounts receivable	1,041,475	1,264,373
Less: allowance for expected credit losses	(22,095)	(9,000)
	<u>1,019,380</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.

12 Other receivables

	(Unaudited) 30 September 2023 RO	(Audited) 31 December 2022 RO
Non-financial assets:		
Prepayments	41,502	13,811
Others	92,948	-
	<u>134,450</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.

13 Bank balances

	(Unaudited) 30 September 2023 RO	(Audited) 31 December 2022 RO
Term deposit	2,000,000	-
Cash at bank	691,366	2,645,025
	<u>2,691,366</u>	<u>2,645,025</u>

Term deposit carries an interest rate of 5.80% 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.

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	(Unaudited) 30 September 2023 RO	(Audited) 31 December 2022 RO
Non-current	7,567,953	-

Borrowings represent Musharakah Finance Facility obtained from Muzn Islamic Banking for a term of 14 years including a moratorium period of three years for principal payment.

Security

- Legal mortgage over all properties in favor of the bank.
- Lien over the rental escrow account.
- Assignment of rent receivable from the major tenants in favor of the bank.

15 Accounts payable

	(Unaudited) 30 September 2023 RO	(Audited) 31 December 2022 RO
Financial liabilities:		
Management fee payable (note 20)	114,188	113,966
Accounts payable	147,048	142,633
	261,236	256,599

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

16 Other payables

	(Unaudited) 30 September 2023 RO	(Audited) 31 December 2022 RO
Financial liabilities:		
Other payables	51,615	49,816
Interest payable	97,761	-
Custodian fee payable (note 20)	6,806	6,881
Non-financial liabilities:		
Provision for registration of investment properties	-	60,012
Security deposits	34,864	40,096
Unearned income	41,348	139,650
	232,394	296,455

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

17 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 September 2023	(Audited) 31 December 2022
Net assets (RO)	47,935,304	47,897,155
Number of units outstanding at the reporting date	471,186,386	471,186,386
Net asset value per unit (RO)	0.102	0.102

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18 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, 18 April 2023, and 25 July 2023, the Fund announced cash dividends of RO 0.0011 per unit (aggregating to RO 518,305), RO 0.0012 per unit (aggregating to RO 565,424), RO 0.0012 per unit (aggregating to RO 565,424) which were paid during the quarters ended 31 March 2023, 30 June 2023, and 30 September 2023, respectively.

19 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.

20 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 and Fund manager.

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

	(Unaudited) Nine-month period ended 30 September 2023 RO	(Unaudited) Nine-month period ended 30 September 2022 RO
Rental income	-	1,177,518
Property operating expenses	-	658,004
Management fees (note 6) – Fund Manager	322,841	346,886
Custodian fee (note 7)	19,375	23,389
Board member fees	19,950	28,300

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

	(Unaudited) 30 September 2023 RO	(Audited) 31 December 2022 RO
Due to related parties:		
Management fee payable (note 15) - Fund Manager	114,188	113,966
Custodian fee payable (note 16)	6,806	6,881
	120,994	120,847

KOM 4 (Madayn) was a related party for a part of the year in 2022 and is not a related party for the period ended 30 September 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.

21 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 and borrowings. 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.

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FOR THE PERIOD ENDED 30 SEPTEMBER 2023****21 Fair value measurement (continued)****(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

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 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.

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.

	Fair value measurement using	Significant unobservable inputs (Level 3) RO
	Date of valuation	
Investment properties (note 10)	31 December 2022	44,536,000

22 Contingencies and commitments**22.1 Contingent liabilities**

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

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23 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 10).

Provision for expected credit losses on accounts receivable

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 11.

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.

24 Subsequent events after the reporting date

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization of this condensed interim financial information.

25 Comparative figures

Comparative figures for the previous period have been reclassified/re-arranged wherever necessary to conform with the presentation in the current period's condensed interim financial information.