

ALKHABEER REIT FUND
(A Real Estate Investment Traded Fund)

**SPECIAL-PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2021
AND INDEPENDENT AUDITOR'S REPORT**



Al Azem & Al Sudairy & Al Shaikh & Partners
CPA's & Consultants - Member Crowe Global

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INDEPENDENT AUDITOR'S REPORT

To: The Unitholders
Alkhabeer Reit Fund
(A Real Estate Investment Traded Fund)
Jeddah, Saudi Arabia

Opinion

We have audited the special-purpose financial statements of **Alkhabeer Reit Fund (A Real Estate Investment Traded Fund) ("The Fund")**, which comprise the special-purpose statement of financial position as of June 30, 2021, the special-purpose statement of profit or loss and other comprehensive income for the period then ended, special-purpose statement of changes in net assets attributable to unitholders and special-purpose statement of cash flows, and the accompanying notes to the Special-Purpose financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying special-purpose financial statements present fairly, in all material respects, the special-purpose financial position of the Fund as at June 30, 2021, and its financial performance and its special-purpose cash flows for the period then ended in accordance with the International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants.

Basis for 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 special-purpose 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 special-purpose financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

As drew in Note No. (10) in the accompanying financial statements for the special purpose, during the period the process of cash and in-kind contributions was completed, which amounted to cash contributions amounting to SR138,797,503 and contributions in kind to SR196,700,005 at the target subscription price. On a date subsequent to the financial statements, trading of the new units of the fund began on July 6, 2021 AD (corresponding to Dhu al-Qa'dah 26 1442 AH).

Other Matter

These special-purpose financial statements were issued and prepared for private use by Alkhabeer Reit Fund management, the capital market authority and the Unitholders only, and should not be used to any other party and this report should not be referenced by any other person without getting a prior written approval. As the financial statements for the fund are issued on December 31, for each year.

Independent Auditor’s Report – Continued

**To: The Unitholders
Alkhabeer Reit Fund
(A Real Estate Investment Traded Fund)
Jeddah, Saudi Arabia**

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the special-purpose financial statements of the current period. These matters were addressed in the context of our audit of the special-purpose financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Below are the description of each key audit matters and how our audit procedures were addressed to these key audit matters:

Key Audit Matters	How our audit addressed key audit matters
<p>Investment properties and right of use asset</p> <p>Impairment of Investment properties and right of use asset</p> <p>As at 30 June 2021, the book value of investment properties and right of use asset held by the Fund amounted to SR 1.877 Million (as at 31 December 2020: SR 1.591 Million).</p> <p>Investment property is measured initially at cost including transaction costs. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and impairment losses, if any. However, the fair value of the investment property is disclosed along with its impact on net assets per unit.</p> <p>In accordance with the requirements of relevant accounting standards, the Fund is required to assess indicators of impairment on its property at each reporting date. In case such indicators are identified, the recoverable amount of such property is required to be determined.</p> <p>As part of its assessment of impairment indicators, the Fund reviews both the internal and external indicators of impairment including but not limited to net cash outflows or operating losses, physical wear and tear of assets and adverse market changes or conditions. Moreover, the assessment of recoverable amounts entails the use of complex valuation techniques.</p>	<p>Our audit procedures in response to the assessed risk of material misstatement in valuation of investment properties comprised of:</p> <ul style="list-style-type: none"> ▪ Obtained an understanding of the management processes for identification, and mitigation of valuation risk. ▪ Performed test of details on the acquisition costs and ensured that all costs are appropriately capitalized. ▪ Assessed the Fund Manager's determination of the following: <ul style="list-style-type: none"> ○ The factors considered by the Fund in impairment indicator assessment, and ○ The base used in determine cash generating units. And it's the method used to calculate the recoverable amount. ▪ Assessed the recoverable amount assessment prepared by the Fund using valuation reports prepared by independent valuers and assessed the model, assumptions and estimates used in the calculation of fair values less cost of disposal ('fair value') and value in use. ▪ Assessed the key assumptions and estimates used, including discount rate, terminal rate, annual rental income, operating expenditure. Checked sensitivity analysis, including assessment of the effect of reasonably possible changes in the discount rate and operating expenditures on the forecasted cash flows to evaluate the impact.



Independent Auditor’s Report – Continued

To: The Unitholders
Alkhabeer Reit Fund
 (A Real Estate Investment Traded Fund)
Jeddah, Saudi Arabia

Key Audit Matters - Continued

Key Audit Matters	How our audit addressed key audit matters
<p>Since, the evaluation of impairment indicators and ensuing recoverable amount assessment, where required, involves the exercise of significant judgment, it has therefore been determined to be a key audit matter.</p> <p>Refer to notes 7 and 8 to the Special-Purpose financial statements for significant judgements and assumptions applied in the determination of the recoverable amounts of the investment properties and note 3 for the details of related accounting policies.</p> <p>The Fund uses valuation reports from the independent valuer engaged by the Fund manager to evaluate the fair value of properties at the reporting date.</p> <p>We considered this as a Key audit matter since the valuation requires significant judgment with respect to the appropriateness of the method used, and any input inaccuracies in this judgment could result in material misstatement of the special-purpose financial statements disclosure.</p>	<ul style="list-style-type: none"> ▪ Compared the recoverable amount of each cash-generating unit with its carrying value. ▪ We have reviewed the Special-Purpose financial statement disclosure ▪ We have reviewed the disclosures of key assumptions and judgements. ▪ Assessing the independence, professional qualifications, competence and experience of the Fund’s independent valuers, also ensured the valuers were certified by the Saudi Authority for Accredited valuers (TAQEEM). Assistance by our property valuation specialist in this area to review the assumption used in valuing the investment properties. ▪ Agreeing observable inputs used in the valuations, such as rental income, occupancy rates, breaks clauses and lease length back to lease agreements for a sample of properties.

Responsibilities of Fund’s managers and Those Charged with Governance for the Special-Purpose Financial Statements

Fund’s Manager is responsible for the preparation and fair presentation of the special-purpose financial statements in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants, the applicable provisions of the investment Funds regulation and the Fund’s terms and conditions, and for such internal control as Fund’s Manager determine is necessary to enable the preparation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special-purpose financial statements, Fund’s Manager 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 Fund’s Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so

The Fund’s Manager is responsible for overseeing the Fund’s financial reporting process.



Independent Auditor's Report – Continued

To: The Unitholders
Alkhabeer Reit Fund
(A Real Estate Investment Traded Fund)
Jeddah, Saudi Arabia

Auditor's Responsibilities for the Audit of the Special-Purpose Financial Statements

Our objectives are to obtain reasonable assurance about whether the special-purpose financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special-purpose financial statements.

As part of an audit in accordance with International Standards on Auditing 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 special-purpose 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 Fund's Manager.
- Conclude on the appropriateness of Fund's Manager'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 auditors' report to the related disclosures in the special-purpose 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 auditors' report. However, future events or conditions may cause the to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Special-Purpose financial statements, including the disclosures, and whether the special-purpose financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditors' Report - Continued

To The Unitholders
Alkhabeer Reit Fund
(A Real Estate Investment Traded Fund)
Jeddah, Saudi Arabia

Auditor's Responsibilities for the Audit of the Special-Purpose Financial Statements – Continued

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the special-purpose financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



07 Muharram 1443H (August 15, 2021)
Jeddah, Kingdom of Saudi Arabia

AlAzem, AlSudairy, AlShaikh & Partners
Certified Public Accountants



Abdullah M. AlAzem
License No. 335

ALKHABEER REIT FUND
(A Real Estate Investment Traded Fund)
SPECIAL-PURPOSE STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2021
(Expressed in Saudi Riyals)

	Notes	As at June 30, 2021	As at December 31, 2020
ASSETS			
Cash at Banks		67,017,104	44,108,858
Account Receivables	4	40,790,491	35,693,221
Prepaid expenses and other debit balances	5	6,916,368	7,278,317
Due from a related party	6	19,266	19,266
Right of use asset	7	154,716,926	159,312,565
Investment properties	8	1,723,175,073	1,431,786,190
Total Assets		1,992,635,228	1,678,198,417
LIABILITIES AND NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS			
LIABILITIES			
Credit facilities	9	745,990,445	746,053,038
Due to related parties	6	8,000,923	5,865,852
Lease liabilities	7	16,379,505	17,101,709
Accrued subscription	10	335,497,508	-
Accrued expenses and other liabilities	11	73,811,965	53,023,595
Total Liabilities		1,179,680,346	822,044,194
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
		812,954,882	856,154,223
Number of units issued (unit)		102,971,013	102,971,013
Assets value per unit – book value	8	7.8950	8.3145
Assets value per unit – fair value	8	8.3922	8.7092

The accompanying notes from (1) to (22) form an integral part of these special purpose financial statements and should be read together with independent auditor's report.

ALKHABEER REIT FUND

(A Real Estate Investment Traded Fund)

SPECIAL-PURPOSE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**FOR THE PERIOD ENDED JUNE 30, 2021**

(Expressed in Saudi Riyals)

		FOR THE PERIOD ENDED JUNE 30, 2021	FOR THE YEAR ENDED DECEMBER 31, 2020
Rental income		54,651,340	88,230,559
Expenses			
Properties / Facilities management fees	13	(3,278,946)	(3,735,906)
Administration and custody fees	13	(309,862)	(507,386)
Management fees	13	(3,227,102)	(5,633,442)
Finance costs		(14,934,566)	(19,756,439)
Depreciation of investment properties and right of use asset (impairment) of investment properties / reversal of impairment loss	7,8	(18,281,337)	(27,299,040)
	8	(30,227,094)	1,939,099
Provision for expected credit losses	4	-	(13,858,672)
Fund establishment expenses and others	12	(1,849,020)	(18,249,195)
Total expenses		(72,107,927)	(87,100,981)
(Loss) / profit for the period / year		(17,456,587)	1,129,578
Other comprehensive (loss) / income		-	-
Total other comprehensive (loss) / income for the period / year		(17,456,587)	1,129,578

The accompanying notes from (1) to (22) form an integral part of these special purpose financial statements and should be read together with independent auditor's report.

ALKHABEER REIT FUND
(A Real Estate Investment Traded Fund)
SPECIAL-PURPOSE STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
FOR THE PERIOD ENDED JUNE 30, 2021
(Expressed in Saudi Riyals)

	FOR THE PERIOD ENDED JUNE 30, 2021	FOR THE YEAR ENDED DECEMBER 31, 2020
Net Assets Attributable to Unitholders		
Net assets attributable to unit holders at the beginning of the period / year	856,154,223	571,745,229
Cash subscriptions with a nominal value of SR 10 for each unit	-	37,956,770
Subscriptions issued against investment properties	-	327,329,500
Discount on issuance of underwriting units	-	(39,984,248)
Dividends	15 (25,742,754)	(42,022,606)
Total comprehensive (loss) / income for the period / year	(17,456,587)	1,129,578
Net assets attributable to unit holders at the end of the period / year	812,954,882	856,154,223

The accompanying notes from (1) to (22) form an integral part of these special purpose financial statements and should be read together with independent auditor's report.

ALKHABEER REIT FUND
(A Real Estate Investment Traded Fund)
SPECIAL-PURPOSE STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 2021
(Expressed in Saudi Riyals)

	FOR THE PERIOD ENDED JUNE 30, 2021	FOR THE YEAR ENDED DECEMBER 31, 2020
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
(loss) / Profit for the period / Year	(17,456,587)	1,129,578
Adjustment for:		
Depreciation of investment properties and right-of-use asset	18,281,337	27,299,040
impairment / (Reversal of impairment loss) of investment properties	30,227,094	(1,939,099)
Finance cost charged on lease liabilities	856,796	1,544,254
Finance cost	14,077,770	18,212,185
Expected credit losses	-	13,858,672
Changes in operating assets and liabilities:		
Due from a related party	-	734
Account receivables	(5,097,270)	(23,653,150)
Prepaid expenses and other debit balances	361,949	(3,757,708)
Due to related parties	2,135,071	3,107,055
Accrued expenses and other liabilities	7,916,993	35,675,719
Finance cost paid	(14,077,770)	(16,774,688)
Net cash provided by operating activities	37,225,383	54,702,592
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Additions to investment properties	(335,012,475)	(417,562,705)
Addition to right-of-use asset	(289,200)	-
Net cash used in investing activities	(335,301,675)	(417,562,705)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Net movement in credit facilities	(62,593)	397,499,999
Issuance of cash subscriptions	-	33,802,022
Dividends paid	(12,871,377)	(42,022,606)
Subscriptions due	335,497,508	-
Lease payments	(1,579,000)	(1,579,000)
Net cash provided by financing activities	320,984,538	387,700,415
Net change in cash at banks	22,908,246	24,840,302
Cash at banks at the beginning of the period / year	44,108,858	19,268,556
Cash at Banks at the End of the period / year	67,017,104	44,108,858
<u>Non-cash Items:</u>		
Subscription issued against investment properties	-	291,500,000
Dividends due	12,871,377	-

The accompanying notes from (1) to (22) form an integral part of these special purpose financial statements and should be read together with independent auditor's report.

ALKHABEER REIT FUND

(A Real Estate Investment Traded Fund)

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED JUNE 30, 2021

(Expressed in Saudi Riyals)

1. THE FUND AND ITS ACTIVITIES

Alkhabeer REIT Fund (the "Fund") is a closed-ended Shariah compliant real estate investment traded fund, established in accordance with the rules and regulations enforced in KSA as well as under the guidelines of CMA. The Fund has been established on December 16, 2018, its managed by Alkhabeer Capital (Alkhabeer "Capital" or the "Fund Manager"), for the benefit of the Fund's unitholders. The Fund is listed on the Saudi Stock Exchange (Tadawul). The Fund is ultimately supervised by the Fund Board. Alinma Investment Company acts as the Custodian of the Fund.

The Fund's main objective is to generate rental income yield and periodic cash distributions of not less than 90% of the Fund's annual net profits, by investing not less than 75 % of the Funds total assets, according to its last audited financial statements, in income generating real estate assets in the Kingdom of Saudi Arabia excluding Makkah and Medina.

The terms and conditions of the Fund were approved by the Capital Market Authority (the "CMA") on 16 October 2018 (8 Safar 1440H). The initial public offering period for the subscription of the units was 15 days starting from November 11, 2018 to November 29, 2018. The Fund commenced its activities on December 16, 2018. The Fund was listed on Tadawul on March 20, 2019.

In dealing with the unitholders, the Fund Manager considers the Fund as an independent entity. Accordingly, the Fund prepares its own financial statements. Furthermore, unitholders are considered owners of the assets of the Fund and distributions may be made in relation to their respective ownership in the total number of outstanding units.

The Fund's term is ninety-nine (99) years following the date of listing the units on Tadawul. The term of the Fund may be extended at the Fund Manager's discretion subject to CMA approval.

The Fund is subject to the Sharia Boards guidelines in its investments and transactions. The books and records of the Fund are maintained in Saudi Riyals (SR), which represents the functional and presentation currency of the Fund.

2. REGULATORY AUTHORITY

The Fund has been established and units were offered in accordance with the Real Estate Investment Funds Regulations issued by CMA under Resolution No. 1-193-2006, dated 19/6/1427H, (The "Real Estate Investment Funds Regulations"), and in accordance with the instructions issued by CMA in respect of traded real estate investment funds pursuant to Resolution No. 6-130-2016, dated 23/1/1438H, corresponding to 24/10/2016G, ("Real Estate Investment Traded Funds Instructions") and amended by resolution of the Board of the Capital Market Authority Number 2-115-2018, dated 13/2/1440H corresponding to 22/10/2018G detailing requirements for all the Real Estate Investment Funds within the Kingdom of Saudi Arabia.

3. BASIS OF PREPARATION OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS

Statement of compliance

The accompanying special-purpose financial statements for the Fund have been prepared in accordance with the International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants.

ALKHABEER REIT FUND
(A Real Estate Investment Traded Fund)
NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2021
(Expressed in Saudi Riyals)

Basis of measurement

These special purpose financial statements of the Fund have been prepared on a historical cost basis except for the items which measure at fair value, present value, net realizable value, and replacement cost in line with the accrual basis of accounting and going concern assumption.

Reporting currency

The accompanying special purpose financial statements are presented in Saudi Riyals, which is the Fund's functional and presentation currency.

Fair value measurement

The fair value represents the amount that may be collected from selling an asset or paying it to transfer a liability between informed parties under the same terms of business with others. The fair value measurement depends on the following conditions:

- The principal market for assets or liabilities, or
- The most advantageous market for assets and liabilities in the absence of a primary market, or
- Use discounted cash flows in the absence of a major market or the most advantageous market.

Assets or liabilities measured at fair value

- Separate assets or liabilities.
- A group of assets or a group of liabilities or a group of assets and liabilities.
- A set of accounting policies and notes that require calculating the fair value of financial and non-financial assets and liabilities.
- The Fund uses market inputs that are observable as far as possible when measuring the fair value of assets and liabilities.

The Fund determines fair value using valuation approaches. The Fund also uses the following levels which reflect the importance of inputs used in determining fair value:

- Level 1: quoted prices (unadjusted) in an active market for similar assets or liabilities.
- Level 2: valuation methods based on inputs other than quoted prices included in Level 1 that can be observable for assets and liabilities, directly or indirectly.
- Level 3: valuation techniques that use inputs that have an important impact on fair value but are not based on observable inputs.

The Fund recognizes transfers between fair value levels at the end of the reporting period at the same time as the change occurs, the Fund' manager believes that its estimates and assumptions are reasonable and sufficient.

ALKHABEER REIT FUND
(A Real Estate Investment Traded Fund)
NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2021
(Expressed in Saudi Riyals)

Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents includes banks balances, deposits held at call with banks with a maturity of three months, which are subject to an insignificant risk of changes in value.

Investment properties

Real estate investments represent real estate held for the purpose of achieving an increase in its value or achieving returns from rent or sale, or both. These investments are recorded at cost less accumulated depreciation and any impairment. The cost is depreciated minus the remaining value of the real estate investment over the useful life or the fund term, whichever is less. The cost of real estate investment includes the cost of the land and other development related expenses.

Real estate investments' carrying value is assessed at the date of each report, to ensure if there are any impairment, especially when a change of circumstances indicate that a carrying amount is unrecoverable. In that case, if evident suggest an increase in carrying amount that exceeds the estimated recoverable amount, which represent the highest fair value less cost of sales and the value in use, carrying amount is the written down to the recoverable amount, impairment losses are recognized in the profit or loss statement.

Depreciation is calculated on a straight-line basis over the useful life of the asset.

The following are the estimated useful life for major fixed assets items

Item	Useful life
Buildings	40 years

Lands are not depreciated.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be withdrawn. In this case, the fee is deferred until the withdrawn occurs.

In case there is no evidence that it is probable that some or all of the facility will be withdrawn, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility related.

IAS 23, Borrowing cost requires any incremental transaction cost to be amortized using the Effective Interest Rate (EIR). The Fund's accounts for finance cost (Interest cost and amortization of transaction cost) as per the effective interest rate method. For floating rate loans, EIR determined at initial recognition of loan liabilities is used for the entire contract period. Borrowing cost incurred for any qualifying assets are capitalized as part of the cost of the asset.

ALKHABEER REIT FUND
(A Real Estate Investment Traded Fund)
NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2021
(Expressed in Saudi Riyals)

Accrued expenses and other payable

Liabilities are recognized for the amount to be paid in the future for services received, whether billed by the supplier or not.

Offsetting

Financial asset and liability is offset and net amounts reported in the special-purpose financial statements, when the Fund's has a legally enforceable right to offset the recognized amounts and intends to settle on a net basis, and to realize the asset and liability simultaneously.

Expenses

All expenses are classified as operating expenses unless another classification is consistent with the nature of the item of expense and circumstances of the Fund.

Revenue recognition

Rental income is recognized on an accrual basis in accordance with the terms and conditions of the lease contract. Capital gains resulting from the sale of investment property are recognized once the sale contract is executed.

Right-of-use asset

The Fund recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Fund is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term the right of use assets are subject to impairment testing, and the estimated useful life of the assets by the fund is 18 years.

Provisions

Provisions are recognized when the Fund has a present obligation (legal or contractual) as a result of past events, and it is probable that an outflow of resources involving economic benefits will be required to settle the obligation. In addition, a reliable estimate of the amount of the obligation can be made.

ALKHABEER REIT FUND

(A Real Estate Investment Traded Fund)

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED JUNE 30, 2021

(Expressed in Saudi Riyals)

Lease liabilities

At the commencement date of the lease, the Fund recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Fund and payments of penalties for terminating a lease, if the lease term reflects the Fund exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Fund uses the internal cost of funds as the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

A Fundamental judgment in determining the lease term of the contracts with the option to renewal

The Fund determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised

Finance costs

Finance cost is recognized in the special-purpose statement of profit or loss and other comprehensive income for all special commission-bearing financial instruments using the effective special commission method.

Trade receivable

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Dividend

Interim and final dividends are recorded as liability in the period in which they are approved by the Fund Board.

Zakat and income tax

Zakat and income tax are the obligation of the unitholders and therefore, no provision for such liability is made in the special-purpose financial statements.

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Net asset value of the unit

The net asset value of the unit is calculated and disclosed in the special- purpose statement of financial position by dividing the net assets of the Fund attributed to unitholders by the number of issued units.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

A financial asset includes the followings:

- a) Cash and equivalents
- b) Equity instruments in another entity
- c) A contractual right to receive cash or another financial asset from another entity or to exchange financial instruments with another entity under conditions are potentially favorable to the entity.
- d) A contract that may or will be settled at entity's owned equity instruments.

Classification and initial recognition

The Fund classifies its financial assets in the following measuring categories:

- Measured subsequently at fair value (either through profit or loss, or through other comprehensive income).
- Measured at amortized cost.

Classification depends on the business model of the Fund to manage financial assets, and on the contractual terms of cash flows.

For assets measured at fair value, gain and losses will either be recorded in statement of profit or loss and other comprehensive income (OCI). For investment in debt instruments, this will depend on the business model in which investment is held. For investment in equity instruments, this will depend on whether the Fund has made an irrevocable election at the time of initial recognition to account for the equity instruments at fair value through OCI. The Fund reclassifies debt instruments when and only when its business model for managing those assets changes.

At initial recognition, the Fund measures a financial asset at its fair value (In the case of financial asset not at fair value through profit or loss) plus transaction costs that are directly attributable to the acquisition of the financial asset. Transactions costs of financial assets carried at fair value through profit or loss are expensed in the profit or loss.

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Subsequent measurements

Equity instruments

The Fund subsequently measures all equity investments at fair value. Where the Fund's management has elected to present fair value gains or losses on equity investments in OCI, there is no subsequent reclassification of fair value gains or losses to profit or loss. Dividends from such investments continue to be recognized in profit or loss as other income when the Fund's right to receive payments is established. Impairment losses and reversal of impairment losses on equity investments measured at FVOCI are treated separately within the net of assets.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in gain or loss in the statement of profit and loss as applicable.

DEBT INSTRUMENTS

Subsequent measurement of debt instruments depends on the Fund's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Fund classified its debt instruments:

• **Amortized cost**

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt instrument that is measured at amortized cost and is not part of a hedging relationship is recognized in statement of profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

• **Fair value through other comprehensive income (FVOCI)**

Assets that are held for collection of contractual cash flows and for selling the financial assets, are measured at fair value through other comprehensive income (FVOCI). Movements in carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gain or loss which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from OCI to retained earnings. Realized gain or loss are recognized in profit or loss.

• **Fair value through statement of profit or loss**

Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through statement of profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through statement of profit or loss. And is not part of a hedging relationship is recognized in statement of profit or loss and presented net in the statement of profit or loss within gain or loss in the period in which it arises. Interest income from these financial assets is included as financial benefit in profits or losses.

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Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Impairment

The Fund assesses on a forward looking basis the expected credit losses associated with its assets carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Financial liabilities

A financial liability is classified as follows:

- Contractual obligation to deliver cash or another financial asset to another entity.
- Contractual obligation to exchange financial instruments with another entity under conditions that are potentially unfavorable.
- A non-derivative contract for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments.

Recognition and measurement

All financial liabilities are recognized initially at fair value. Subsequently, it is measured at amortized cost using effective interest rate methods. The Fund's financial liabilities include accrued expenses and other liabilities and due to a related party.

Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the statements of financial position only if there is a current enforceable legal right to offset the recognized amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derecognition of financial assets

The Fund derecognize a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in the profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Fund has elected on initial recognition to measure at FVTPL, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The Funds' obligations are derecognized only if relieved, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the profit and loss .

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the (DCF) model. The inputs to the models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to the factors could affect the reported fair value of financial instruments.

Provision for expected credit losses on receivables against operating leases

The Fund uses a provision matrix to calculate (ECLS) of receivable from operating leases. The provision matrix is initially based on the Fund's historical observed default rates. The Fund will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product, Inflation rate and governmental spending) is expected to deteriorate over the next period which can lead to an increased number of defaults in the real estate sector, the historical default rates are adjusted. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historically observed default rates, forecasted economic conditions and (ECL) is a significant estimate. The amount of (ECL) is sensitive to changes in circumstances and forecasted economic conditions. The Fund's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

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The useful lives of investment properties

The Fund manager determines the useful lives of investment properties in order to calculate depreciation. This estimate is determined after considering expected usage of the assets, and physical wear and tear. The Fund manager reviews the residual value and useful lives annually and makes the necessary changes in current and future periods.

Impairment of investment properties

Investment 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 investment property exceeds its recoverable amount which is the higher of its net cost to sell or value in use. For the purpose of assessing impairment, investment properties are grouped at lowest levels for which there are separately identifiable cash flows (cash generating units). Where an impairment loss subsequently reverses, the carrying amount of the investment property or cash-generating unit 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, had no impairment loss been recognized for the investment property or cash generating unit in prior periods. A reversal of an impairment loss is recognized as income immediately in the statement of profit or loss.

Impairment of non-financial assets

Assets subject to depreciation and amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in profit or loss for the amount that exceeds the carrying amount of the asset over its recoverable amount. Recoverable value is the fair value of the asset less costs to sell or value in use (whichever is higher). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate cash flows (cash-generating units). Prior impairment in non-financial assets (other than goodwill) are reviewed to reflect the potential impairment at each reporting date.

An impairment loss recognized in prior periods is evaluated at each reporting date to determine whether there are indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that could have been determined, net of depreciation or amortization, had the impairment loss not been recognized previously.

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4. ACCOUNT RECEIVABLES

	As at June 30, 2021	As at December 31, 2020
Accounts receivable	55,290,491	50,193,221
Provision for expected credit losses	(14,500,000)	(14,500,000)
	<u>40,790,491</u>	<u>35,693,221</u>

The movement in the provision for Expected credit losses during the period / year is as follows:

	As at June 30, 2021	As at December 31, 2020
Balance at the beginning of the period / year	14,500,000	641,328
Provision for the period / year	-	13,858,672
	<u>14,500,000</u>	<u>14,500,000</u>

5. PREPAIDS EXPENSES AND OTHER DEBIT BALANCES

	As at June 30, 2021	As at December 31, 2020
Value add tax deposits	3,425,630	6,469,214
Prepaid development cost of properties	234,277	487,516
Prepaid expense	198,156	71,587
Other	3,058,305	250,000
	<u>6,916,368</u>	<u>7,278,317</u>

6. RELATED PARTIES TRANSACTIONS AND BALANCES

a) Due from related party comprises the following:

Related party	Nature of transaction	Volume of transaction		Balance	
		FOR THE PERIOD ENDED JUNE 30, 2021	FOR THE YEAR ENDED DECEMBER 31, 2020	As at June 30, 2021	As at December 31, 2020
Awal Al malga Real Estate Company	Expenses paid on behalf	-	(734)	<u>19,266</u>	19,266
				<u>19,266</u>	<u>19,266</u>

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Alkhabeer Capital Company established Awal Al Malqa Real Estate Company as a limited liability company (“a special purpose vehicle”) registered under Commercial Registration No. 1010893802 on Shawwal 19, 1438 AH (corresponding to July 13, 2017 AD) for the purpose of keeping and registering investments properties related to real estate funds under the company’s. The fund provided an amount of SR 20,000 as the company's capital.

The title deed of real-estate was registered under the name of Awal Al-Malqa Real Estate Company. The Company confirmed that it owns these properties on behalf of the Fund. As the Fund is the beneficial owner of these real estate, they have been recorded in the Fund’s special-purpose financial statements.

b) Due to related parties comprises the following:

Related party	Nature of transaction	Volume of transaction		Balance	
		FOR THE PERIOD ENDED JUNE 30, 2021	FOR THE YEAR ENDED DECEMBER 31, 2020	As at June 30, 2021	As at December 31, 2020
Alkhabeer Capital (Fund Manager)	Expenses paid on behalf of the Fund	3,917,500	26,940,469	4,443,000	525,500
	Management fees	3,227,102	5,633,442	3,227,102	4,673,467
	Administration fees	107,570	187,985	107,570	113,484
Alinma Investment Company	Custody Fees	202,292	319,401	202,292	519,401
	Aggregate compensation to Independent Fund’s Board Members	20,959	42,438	20,959	34,000
				8,000,923	5,865,852

c) All transactions with related parties are approved by the Fund manager.

7. LEASES

A) Right-of-use asset

The movement in right to use assets is as follow:

	As at June 30, 2021	As at December 31, 2020
Balance at the beginning of the period / year	159,312,565	169,066,397
Additions for development cost	289,200	-
Depreciation during the period / year	(4,884,839)	(9,753,832)
	154,716,926	159,312,565

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The main assumptions used in determining the fair value of investment properties are as follows:

<u>Property Name</u>	<u>Property type</u>	<u>Valuation Method</u>	<u>Discount Rate</u>	<u>Fair Value as at June 30, 2021</u>	<u>Fair Value as at December 31, 2020</u>
Gallery Mall	Commercial	Income approach	11% - 11.25%	<u>164,852,500</u>	161,234,500

B) Lease liability

Lease liability is as follows:

	<u>As at June 30, 2021</u>	<u>As at December 31, 2020</u>
For a year	<u>1,298,552</u>	1,363,610
For more than a year	<u>15,080,953</u>	15,738,099
Total lease liability	<u>16,379,505</u>	17,101,709

The weighted average of the borrowing rate applied to lease liabilities was 5.01%. Total finance cost on lease liabilities for the period ended June 30, 2021 amounted to SR 856,796 (for the year ended December 31, 2020: SR 1,544,254).

Gallery Mall represents a lease obligation under a right of use lease contract and payment made in advance over the terms of the contract.

8. INVESTMENT PROPERTIES

A) The movement of the investment's properties owned by the Fund is as follows:

	<u>As at June 30, 2021</u>	<u>As at December 31, 2020</u>
Residential and commercial real estate investments	<u>1,523,807,500</u>	817,582,500
Acquisition of investments properties	<u>334,237,500</u>	706,225,000
Development costs	<u>3,612,680</u>	2,837,705
Accumulated depreciation	<u>(42,928,541)</u>	(29,532,043)
Impairment	<u>(95,554,066)</u>	(65,326,972)
	<u>1,723,175,073</u>	1,431,786,190

B) The movement in the impairment of investments properties is as follows:

	<u>As at June 30, 2021</u>	<u>As at December 31, 2020</u>
Balance at the beginning of the period / year	<u>65,326,972</u>	67,266,071
Impairment / (Reversal of impairment loss)	<u>30,227,094</u>	(1,939,099)
	<u>95,554,066</u>	65,326,972

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C) The details of the movement in investments properties related to the fund are as follows:

	Lands*	Residential and commercial properties	Balance as at June 30, 2021
Cost:			
Balance at January 1, 2021	455,700,260	1,070,944,945	1,526,645,205
Additions during the period	64,275,282	270,737,193	335,012,475
Balance at June 30, 2021	519,975,542	1,341,682,138	1,861,657,680
Accumulated depreciation:			
Balance at January 1, 2021	-	29,532,043	29,532,043
Charge for the period	-	13,396,498	13,396,498
Balance at June 30, 2021	-	42,928,541	42,928,541
Net book value as at June 30, 2021	519,975,542	1,298,753,597	1,818,729,139
Impairment			(95,554,066)
Balance at June 30, 2021	519,975,542	1,298,753,597	1,723,175,073
	Lands*	Residential and commercial properties	Balance as at December 31, 2020
Cost:			
Balance at January 1, 2020	300,991,760	516,590,740	817,582,500
Additions during the year	154,708,500	554,354,205	709,062,705
Balance at December 31, 2020	455,700,260	1,070,944,945	1,526,645,205
Accumulated depreciation:			
Balance at January 1, 2020	-	11,986,835	11,986,835
Charge for the year	-	17,545,208	17,545,208
Balance at December 31, 2020	-	29,532,043	29,532,043
Net book value as at December 31, 2020	455,700,260	1,041,412,902	1,497,113,162
Impairment			(65,326,972)
Balance at December 31, 2020	455,700,260	1,041,412,902	1,431,786,190

*The title deeds are pledged with a local bank under a credit facility agreement except for the acquired properties during the period which are, Akun warehouses and Vision Colleges for education – Jeddah.

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D) The details of the Investment properties are as follows:

As at June 30, 2021

<u>Property name</u>	<u>Type</u>	<u>Location</u>	<u>Acquisition and development cost</u>	<u>Accumulated depreciation</u>	<u>Impairment</u>	<u>Net book value</u>	<u>Fair value</u>
Homeworks Center	Retail	Riyadh	79,950,000	(1,496,875)	(808,125)	77,645,000	77,645,000
Palazzo Center	Retail	Riyadh	95,632,500	(2,952,031)	(9,455,469)	83,225,000	83,225,000
Al-Malqa complex	Residential	Riyadh	317,612,680	(15,971,689)	(49,575,991)	252,065,000	252,065,000
Elite Center	Multi-use	Jeddah	164,000,000	(6,515,530)	(8,209,470)	149,275,000	149,275,000
Ahlan Court Center	Retail	Jeddah	71,750,000	(924,420)	(6,505,580)	64,320,000	64,320,000
Bin 2 Center	Multi-use	Jeddah	92,250,000	(3,578,069)	(3,106,931)	85,565,000	85,565,000
Vision Colleges (formerly known as Al-Farabi Colleges) The training building for Vision Colleges (formerly known as -- Al-Farabi	Educational	Riyadh	215,250,000	(3,774,125)	-	211,475,875	211,665,000
Elegance Tower	Offices	Riyadh	66,625,000	(832,833)	-	65,792,167	70,310,000
Vision Colleges - Jeddah	Educational	Jeddah	424,350,000	(6,882,969)	-	417,467,031	453,825,000
Akun warehouses	Logistics	Jeddah	107,500,000	-	(9,500,000)	98,000,000	98,000,000
			226,737,500	-	(8,392,500)	218,345,000	218,345,000
			1,861,657,680	(42,928,541)	(95,554,066)	1,723,175,073	1,764,240,000

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Property name	Type	Location	Acquisition and development cost	Accumulated depreciation	Impairment	Net book value	Fair value
Homeworks Center	Retail	Riyadh	79,950,000	(1,197,500)	(37,500)	78,715,000	78,715,000
Palazzo Center	Retail	Riyadh	95,632,500	(2,361,625)	(8,965,875)	84,305,000	84,305,000
Al-Malqa complex	Residential	Riyadh	316,837,705	(12,638,518)	(48,104,187)	256,095,000	256,095,000
Elite Center	Multi-use	Jeddah	164,000,000	(5,167,489)	-	158,832,511	161,880,000
Ahlan Court Center	Retail	Jeddah	71,750,000	(733,161)	(4,416,839)	66,600,000	66,600,000
Bin 2 Center	Multi-use	Jeddah	92,250,000	(2,837,779)	(1,727,221)	87,685,000	87,685,000
Vision Colleges (formerly known as Al-Farabi Colleges)	Educational	Riyadh	215,250,000	(1,509,650)	(2,075,350)	211,665,000	211,665,000
The training building for Vision Colleges (formerly known as Al-Farabi Colleges)	Educational	Riyadh	66,625,000	(333,133)	-	66,291,867	69,740,000
Elegance Tower	Offices	Riyadh	424,350,000	(2,753,188)	-	421,596,812	453,825,000
			1,526,645,205	(29,532,043)	(65,326,972)	1,431,786,190	1,470,510,000

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The following are the main assumptions used in determining the fair value of investment properties as at June 30, 2021:

Property Name	Valuation Method	Discount Rate
Homeworks Center	Market, Cost and Income approach	8% - 9.5%
Palazzo Center	Market, Cost and Income approach.	8.25% - 10.75%
Al-Malqa complex	Market, Cost and Income approach.	8.5% - 10.5%
Elite Center	Cost and Income approach.	9.5% - 11.25%
Ahlan Court Center	Cost and Income approach.	8.5% - 11.25%
Bin 2 Center	Cost and Income approach.	9.5% - 12%
Vision Colleges (formerly known as Al-Farabi Colleges)	Market, Cost and Income approach.	7.5% - 9%
The training building for Vision Colleges (formerly known as AlFarabi Colleges)	Market, Cost and Income approach.	7.5% - 10%
Elegance Tower	Market, Cost and Income approach.	7.5% - 8.5%
Vision Colleges - Jeddah	Market, Cost and Income approach.	7.5% - 8.5%
Akun warehouses	Market, Cost and Income approach.	7.25% - 10%

The valuations of the investment properties and right of use asset were Prepared by white cubes, and Abaad advanced office and his partner, and valuestrat real estate valuation office which are accredited valuers by Saudi Authority for accredited valuers (TAQEEM).

IMPACT OF NET ASSETS VALUE IF INVESTMENT PROPERTIES AND RIGHT OF USE ASSET AT FAIR VALUE

In accordance with article 21 of the Real Estate Investment Funds Regulations issued by the Capital Market Authority (CMA) in Saudi Arabia, the Fund manager estimates the fair value of the funds real estates based on two valuations prepared by independent valuer. However, in accordance with IFRS, investments in real estate and right of use asset properties are carried at cost less depreciation and impairment, and for the purpose of disclosing information, the fair value has been disclosed below:

a) The fair value of investment properties and right of use asset consist of the following:

	As at June 30,	As at December 31,
	2021	2020
Cost of investment properties and right of use asset	2,039,954,289	1,704,652,613
Accumulated depreciation	(66,508,223)	(48,226,886)
Impairment	(44,353,566)	(24,681,227)
Fair value of investment properties and right of use asset	1,929,092,500	1,631,744,500

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b) Net asset at fair value consists of the following:

	As at June 30,	As at December
	2021	31,2020
Net asset value at book value	812,954,882	856,154,223
Unrealized gains arising from revaluation	51,200,500	40,645,745
Net asset at fair value	864,155,382	896,799,968

c) Net assets value per unit at fair value (Effected by fair value of investment properties and right of use asset):

	As at June 30,	As at December
	2021	31,2020
The net book value of the assets per unit	7.8950	8.3145
Unrealized gains arising from revaluation	0.4972	0.3947
Net Assets value per unit, at fair value	8.3922	8.7092

9. CREDIT FACILITIES

The Fund has a credit facility agreement with a local bank to obtain a bank financing amounted to SR 745.9 million as at June 30, 2021 (as at December 31, 2020: SR 746 million). These facilities were obtained mainly according to a financing agreement for the Fund. The facilities agreement is guaranteed by rental collections, and the facilities are charged with financing commissions according to the prevailing rates in the Saudi interbank lending market (SAIBOR rate of six months + 2.25% - 2.50% annually) payable at the end of the loan term.

10. ACCRUED SUBSCRIPTION

During the period, the cash subscription process has completed and resulted in increasing the second total asset value of the fund's successfully, which ended on Dhul-Qa'dah 7,1442 H corresponding to June 17, 2021 G, whereby 307.36% of the total cash offering amounted to SR 138,797,503 was covered, and the surplus was reimbursed to the subscribers.

Also, during the period, the acquisition of the two properties of Vision Colleges for Education in Jeddah and Akon warehouses was completed and paid in cash, in addition to issuing in-kind units with a value of SR 196,700,005, bringing the total amounts of in-kind and cash contributions at the value of the targeted subscription amounting to SR 335,497,508.

The Securities Depository Center (Edaa) was notified on 20 Dhu al-Qa'dah 1442 H corresponding to June 30, 2021 G of the details of the capital increase and the details of the new real estate investments that were acquired for the purpose of listing the Fund's units, while the listing of the new Fund's units was not completed on the date of the statement of special purpose financial position.

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Saudi Tadawul announced on 25 Dhu al-Qi'dah 1442 H corresponding to July 5, 2021 G, the start of Listing the new units of the fund from Dhu al-Qa'dah 26,1442 H corresponding to July 6, 2021 G, bringing the number of units to 141,008,848 units, which resulted in an increase in the fair value of the unit to become SR 8.5076 and detailed as follows:

	<u>As at July 6, 2021</u>
The total value of the fund's assets after the capital increase	2,043,835,729
The net value of the fund's assets after the capital increase	1,199,652,890
Number of fund units	141,008,848
Fair value of the unit	<u>8.5076</u>

11. ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>As at June 30, 2021</u>	<u>As at December 31,2020</u>
Unearned rent income	58,786,304	51,011,001
Accrued dividends	12,871,377	-
Accrued fees for properties management	472,879	480,473
Retention payable	267,732	267,732
Refundable insurance	261,300	247,950
Accrued finance charges	134,895	572,769
Professional and consulting fees	130,280	175,650
Other credit balance	887,198	268,020
	<u>73,811,965</u>	<u>53,023,595</u>

12. FUND ESTABLISHMENT EXPENSES AND OTHERS

	<u>FOR THE PERIOD ENDED JUNE 30, 2021</u>	<u>FOR THE YAER ENDED DECEMBER 31, 2020</u>
Consulting and legal fees	428,150	1,058,998
Initial registration and listing fees – annual	343,916	641,866
Real estate valuation fees	70,650	260,275
Additional offering expenses*	-	15,640,305
Other expenses	1,006,304	647,751
	<u>1,849,020</u>	<u>18,249,195</u>

*One-time additional offering expenses include capital structuring fees, financing structuring fees and transaction costs related to due diligence of real estate assets.

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13. ADMINISTRATIVE FEES AND OTHER EXPENSES

The Fund is managed by the Fund manager, and management fees and charges are calculated as per the terms and conditions of the Fund. The following:

a) ADMINISTRATIVE FEES

The Fund administrator is entitled to receive fees equivalent to 0.025% annually (as indicated in the Fund's terms and conditions) of the net asset value, which are calculated and accrued on every valuation day.

b) MANAGEMENT FEES

The Fund manager is entitled to receive fees equivalent to 9% annually (as indicated in the terms and conditions of the Fund) of net rental proceeds or 0.75% of net asset value according to the last valuation of the Fund - whichever is less - on a quarterly basis

c) CUSTODY FEES

The custodian is entitled to receive fees equivalent to 0.025% annually (as indicated in the terms and conditions of the Fund) of the total assets, or a minimum of SR 200,000 per period with a one-time fee of SR 50,000 calculated and accrued on every valuation day.

d) SUBSCRIPTION FEES

Subscription fees are exempted during the initial offering period of the Fund. The Fund manager is entitled to receive a subscription fee of 2% of the paid and allocated subscription amounts in the event of any future proposals to increase the Fund's capital, and these subscription fees are deducted upon receipt of the subscription amount and paid to the Fund manager, in addition to the subscription amount.

e) CAPITAL RESTRUCTURING FEES

1.5% of the total subscription amounts (cash and in kind) that were collected during the initial offering period or upon the collection of any other future subscription amounts, whether in cash or in kind.

f) FINANCING STRUCTURE FEES

The Fund manager is entitled to obtain a financing structuring fee by amount of 1.5% of the withdrawn financing amount from the total amount of bank facilities compliant with the Sharia Authority controls that were obtained by the Fund or any of its affiliates.

g) PROPERTIES MANAGEMENT FEES

The Fund is entitled to all the fees related to operating, managing, maintaining and insuring all real estate owned by the Fund so that the said fees are paid from the Fund's assets.

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14. SHARIA COMPLIANCE

The Fund operates in accordance with the provisions of Sharia law, as determined by the Sharia advisor. The Sharia advisor has reviewed the Fund's public offering document and confirmed that it is in compliance with Sharia provisions.

15. DIVIDENDS

The Fund's Board of Directors agreed to distribute dividends during the period from the Fund's inception date on December 16, 2018 to December 31, 2019 and for the period ended June 30, 2021. The details of these distributions are as follows:

Approval Date	Amount per Unit	Total
July 31, 2019	0.226	15,015,979.24
October 31, 2019	0.20	13,288,477.20
January 28, 2020	0.20	13,288,477.20
July 22, 2020	0.20	13,288,477.20
October 29, 2020	0.15	15,445,651.95
January 31, 2021	0.125	12,871,376.63
April, 29, 2021	0.125	12,871,376.63

On July 31, 2019, the Fund's Board of Directors approved the payment of dividends for the period from March 20, 2019 to June 30, 2019, in the amount of SR 0.226 per unit and a total of SR 15.02 million to unit holders. Profits were paid during the period ended on December 31, 2019.

On October 31, 2019, the Fund's Board of Directors approved the payment of dividends for the period from July 1, 2019 to September 30, 2019, in the amount of SR 0.20 per unit and a total of SR 13.29 million to unit holders. Profits were paid during the period ended on December 31, 2019.

On January 28, 2020, the Fund's Board of Directors approved the payment of dividends for the period from October 1, 2019 to December 31, 2019, in the amount of SR 0.20 per unit and a total of SR 13.29 million to unit holders. The dividend was paid during the year ended December 31, 2020.

On July 22, 2020, the Fund's Board of Directors approved the payment of dividends for the period from January 1, 2020 to June 30, 2020, in the amount of SR 0.20 per unit and a total of SR 13.29 million to unit holders. The dividend was paid during the year ended December 31, 2020.

On October 29, 2020, the Fund's Board of Directors approved the payment of dividends for the period from July 1, 2020 to September 30, 2020, in the amount of SR 0.15 per unit and a total of SR 15.45 million to unit holders. The dividend was paid during the year ended December 31, 2020.

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On January 31, 2021, the Fund's Board of Directors approved the payment of dividends for the period from October 1, 2020 to December 31, 2020, in the amount of SR 0.125 per unit and a total of SR 12.871 million to unit holders. The dividend was paid during the year Period ended June 30, 2021.

On April 29, 2021, the Fund's Board of Directors approved the payment of dividends for the period from January 1, 2021 to March 31, 2021, in the amount of SR 0.125 per unit and a total of SR 12.871 million to unit holders. The dividend paid after the period ended June 30, 2021.

16. COMMITMENTS AND CONTINGENCIES

On November 19, 2019, the Fund entered into a profit rate swap contract with a nominal value of SAR 340 million in order to fix the facility profit margin at a fixed rate of 4.69%. The contract is affected on January 31, 2020. The purpose of the contract is to manage the cash flow risk of the fund.

17. LAST VALUATION DATE

The last date for valuation during the period is June 30, 2021.

18. RISK MANAGEMENT

The Fund's activities expose it to various financial risks, and these risks include: market risk (including currency risk, fair value risk and cash flow interest rate risk and price risk), credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial market conditions and seeks to minimize potential adverse effects on the Fund's financial performance.

a) Currency risk

Currency risk is the risk that the value of a financial instrument denominated in foreign currencies the Fund deals mainly in Saudi Riyal.

b) Fair value and cash flow interest rate risk

Fair value and cash flow interest rate risk are the exposures to various risks related to the effect of fluctuations in market interest rates on the financial position and cash flows of the Fund.

c) Price risk

Price risk is the risk that the fair value or a financial instrument will fluctuate because of changes in market prices. Whether these fluctuations were a result of variable factors of the instrument or its source or any other factors affecting all instrument in the market. The Fund is not subject to Price risk.

d) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Funds does not focus on credit risk. Cash is placed with banks with sound credit ratings. Coming up are contractual obligations for financial liabilities, these amount were shown as gross including estimated benefit.

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e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds.

As at June 30, 2021	Book Value	Less than a year	More than a year
<u>Non-derivative financial liabilities</u>			
Credit facilities	745,990,445	8,490,445	737,500,000
Due to related parties	8,000,923	8,000,923	-
Lease Liabilities	16,379,505	1,298,552	15,080,953
Subscription due	335,497,508	335,497,508	-
Accrued expenses and other liabilities	73,811,965	57,713,947	16,098,018
	<u>1,179,680,346</u>	<u>411,001,375</u>	<u>768,678,971</u>

As At December 31, 2020	Book Value	Less than a year	More than a year
<u>Non-derivative financial liabilities</u>			
Credit facilities	746,053,038	8,553,038	737,500,000
Due to related parties	5,865,852	5,865,852	-
Lease liability	17,101,709	1,363,610	15,738,099
Accrued expenses and other Payable	53,023,595	36,925,577	16,098,018
	<u>822,044,194</u>	<u>52,708,077</u>	<u>769,336,117</u>

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19. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount		Fair Value			Total
	Amortized Cost	Fair Value	Level (1)	Level (2)	Level (3)	
June 30, 2021						
<u>Financial Assets</u>						
Cash at Banks	67,017,104	-	-	-	-	-
Account Receivables	40,790,491	-	-	-	-	-
Prepaid expenses and other debit balances	6,916,368	-	-	-	-	-
Due from a related party	19,266	-	-	-	-	-
	114,743,229	-	-	-	-	-
<u>Financial Liabilities</u>						
Credit facilities	745,990,445	-	-	-	-	-
Due to related parties	8,000,923	-	-	-	-	-
Lease Liability	16,379,505	-	-	-	-	-
Accrued subscription	335,497,508	-	-	-	-	-
Accrued expenses and other liabilities	73,811,965	-	-	-	-	-
	1,179,680,346	-	-	-	-	-
December 31, 2020						
<u>Financial Assets</u>						
Cash at Banks	44,108,858	-	-	-	-	-
Account Receivables	35,693,221	-	-	-	-	-
Prepaid expenses and other debit balances	7,278,317	-	-	-	-	-
Due from a related party	19,266	-	-	-	-	-
	87,099,662	-	-	-	-	-
<u>Financial Liabilities</u>						
Credit facilities	746,053,038	-	-	-	-	-
Due to related parties	5,865,852	-	-	-	-	-
Lease Liability	17,101,709	-	-	-	-	-
Accrued expenses and other liabilities	53,023,595	-	-	-	-	-
	822,044,194	-	-	-	-	-

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20. OPERATING SEGMENTS

The fund generates continuous rental returns and all fund operations are executed in the Kingdom of Saudi Arabia. The fund's operations are monitored by the fund management under one sector. Thus no separate information is required.

21. SUBSEQUENT EVENTS

- In July 6, 2021 there was an increase of the Fund's Total Asset Value where the capital was increased from SR 1,029,710,130 to SR 1,410,088,480 by offering 38,037,835 subsequent units by way of accepting in-kind and cash contributions at the target Subscription Price of SR 8.8201 per Unit. Thus the total value of the target subscription of the Second Subsequent Offering equals SR 335,497,508 (at an issue discount of SR 44,880,842).
- Saudi Tadawul announced on 25 Dhu al-Qi'dah 1442 H corresponding to July 5, 2021 G that it will start trading the new units of the fund from Tuesday 26 Dhu al-Qa'dah 1442 H corresponding to July 6, 2021 G, bringing the number of units to 141,008,848 units, which resulted in an increase in the fair value of the unit to become SR 8.5076.
- On April 29, 2021, the Fund's Board of Directors approved the payment of dividends for the period from January 1, 2021 to March 31, 2021, at the amount of SR 0.125 per unit and a total of SR 12.871 million to unitholders. The dividend was paid on July 1, 2021.

22. APPROVAL OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS

These special purpose financial statements have been approved by the Fund's Board of Directors on August 15, 2021.