

الخبير ريت  
Alkabeer REIT



ANNUAL REPORT 2021

# ALKHABEER REIT FUND

Closed-Ended Public Shari'a-Compliant  
Real Estate Investment Traded Fund

الخبير المالية  
Alkabeer Capital



الخبير المالية  
Alkhabeer Capital



#### **ALKHABEER CAPITAL**

[www.alkhabeer.com](http://www.alkhabeer.com)

CMA license 07074 - 37

CR 4030177445

Unified Number: 800 124 7555

#### **Head Office**

Al-Madinah Al-Munawarah Rd

P.O. Box 128289

Jeddah 21362

Kingdom of Saudi Arabia

Tel. +966 12 658 8888

Fax. +966 12 658 6663

#### **Riyadh Branch**

Al-Jumaia Commercial Center

3rd Floor, Unit 4

P.O. Box 5000

Riyadh 12361

Kingdom of Saudi Arabia

Tel. +966 11 210 1814

Fax. +966 11 210 1813

## Annual Report 2021

# ALKHABEER REIT FUND

Alkhabeer REIT is a closed-ended Shari'a-compliant public real estate investment traded fund listed on the Saudi Stock Exchange (Tadawul). On 7 Safar 1440H, corresponding to 16 October 2018G, the Saudi Capital Market Authority (CMA) approved the offering and registration of Alkhabeer REIT's units on the Saudi Stock Exchange (Tadawul).

Shari'a Certificate: (AKC-694-88-03-06-17)

### **DISCLAIMER**

This document does not constitute an offer to buy, subscribe or participate in any way in Alkhabeer REIT, nor shall it (or any part of it) form the basis of, or be relied on, in connection with, or act as inducement to enter into any contract whatsoever. Prospective investors should read carefully Alkhabeer REIT's Terms and Conditions and their contents related to investment risks as well as other Alkhabeer REIT documents prior to making any investment decision. Alkhabeer REIT documents are available on Alkhabeer Capital's website [www.alkhabeer.com](http://www.alkhabeer.com). This investment is not a cash deposit with a local bank. The value of the amount invested and any other income which may arise therefrom, may increase or decrease. All prospective investors are required to make their own determination, with their own financial and legal advisors, and evaluate all risks involved. No assurance can be given that the targeted and projected results will be achieved. Moreover, past performance of Alkhabeer REIT is not a guarantee of future performance. By investing in the Fund, the investor acknowledges having read and accepted Alkhabeer REIT's Terms and Conditions.

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# FUND MANAGER'S LETTER

DEAR UNITHOLDERS,

We are pleased to announce that Alkhabeer REIT Fund (the "Fund") has successfully completed its third year of operations. The Fund was listed on the Saudi Stock Exchange (Tadawul) on 20 March 2019 by way of an initial public offering, investing in seven income-generating real estate assets with a total value of around SAR 1 billion. In August 2020, the Fund Manager increased the Fund's Total Asset Value by SAR 722.8 million (first increase) by increasing the financing amount, offering in-kind units and making the first subsequent offering to investors, for the purpose of acquiring three additional properties in Riyadh, raising the number of Fund properties to ten income generating real estate assets. The cash offering was oversubscribed by 104%. In June 2021, the Fund also increased its total asset value by SAR 335.5 million by increasing the financing amount, in addition to offering in-kind Units and by way of the Fund's Second Subsequent Offering to investors, for the purpose of acquiring two additional properties in Jeddah, raising the number of Fund properties to twelve income generating real estate assets. The cash offering was oversubscribed by 307.36%.

The Fund's properties are located in Riyadh, Jeddah and Tabuk. These assets are diversified across a number of sectors, including the retail, office, residential, education and logistics sectors. The Fund's Total Asset Value as at 31 December 2021 amounted to around SAR 2.0 billion. These acquisitions expand and diversify the Fund's asset base, and the Fund Manager expects that this development will produce a generally favorable effect on the Fund's performance and results. In line with the Fund's Objective, the Fund distributed accumulated cash dividends for the period from 1 January 2021 to 31 December 2021, equal to 5.00% of the capital.

Cash dividend distributions remain low compared to 2019 mainly due to the contraction of economic activities caused primarily by the COVID-19 pandemic and the restrictions imposed by the government to contain the spread of the virus. The decline in economic activities adversely affected the retail, hospitality and office real estate segments, consequently weighing on the Fund's performance. The Fund Manager received a number of requests from property tenants to reduce rental values and/or to reschedule overdue rent payments. After considering those requests with the tenants, the Fund Manager agreed to grant deferrals, reductions and/or waivers.

Cash dividends were also affected by the inability to collect rents from the master tenant (lessee of 100% of the property) of Gallery Mall in Tabuk. On 7 April 2021, the Fund Manager announced that a decision was made to terminate the lease agreement with the master tenant, in order to protect the interests of the Unitholders and reach a higher collection rate by assigning this property to new operators capable of improving its operational efficiency, as compared to the previous tenant, and thus maximize rental yield over the coming years. This will have a negative effect on the Fund in the short term given the lower rental yield in comparison to the previous lease agreement. However, the Fund Manager expects this development to have a positive effect on the Fund in the medium to long term. Nevertheless, the Fund paid cash distributions at the end of 2021 equal to 5.0% of the Fund's capital, which is higher than the Fund's yield for 2020 (4.75%), and better than the global REIT indices, including the MSCI World Equity REIT Index (2.49%) and the FTSE EPRA Nareit Global REITs Index (2.12%).

All the Properties are 100% leased, with the exception of 3 of the 12 properties, namely Almalga Residential Compound, Palazzo Plaza and Gallery Mall, with occupancy rates of 92%, 73% and 49% respectively as at December 2021. The Fund Manager is currently making improvements to Almalga Residential Compound, including the enhancement of the Compound's facades and the addition of ancillary facilities, as well as the provision of additional services, to the residents of the Compound to attract more tenants and increase the Property's occupancy rate. In respect of Palazzo Plaza, the Fund Manager is currently working with the Marketing Manager on a plan for leasing and attracting new tenants. As for Gallery Mall, the Fund Manager is working with the Marketing Manager on a marketing plan to attract new tenants to the mall, increase footfall and organize several events to introduce and market the mall and attract a large number of visitors. The investment environment is expected to recover and perform positively as the global health crisis subsides. The easing of restrictions and accelerated development and distribution of vaccines is also expected to contribute to economic recovery in 2022.

The Fund Manager continues to source select investment opportunities in line with the Fund's long term strategy. The Fund Manager aims to generate annual net returns for the Fund in the range of 7% in the medium term, while expanding and diversifying the Fund's asset base.

This Annual Report aims to provide details on the performance and operations of the Fund as at 31 December 2021. We would like to thank all Unitholders for their continued patronage.

**Fund Manager**  
**Alkhabeer Capital**

# (A) KEY FUND INFORMATION

## 1. FUND OVERVIEW

Alkhabeer REIT is a closed-ended public Shari'a-compliant real estate investment traded fund, established under the applicable laws and regulations of the Kingdom of Saudi Arabia and subject to Capital Market Authority (CMA) Regulations and instructions.

## 2. FUND OBJECTIVE

The Fund's main investment objective is to generate sustainable 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 Fund's total asset value, according to its last audited financial statements, in income-generating real estate assets in the Kingdom of Saudi Arabia (excluding Makkah and Medina).

## 3. FUND INVESTMENT STRATEGY

The Fund Manager seeks to achieve the Fund's investment objectives, which mainly focus on generating periodic rental income, by creating a diversified investment portfolio of real estate assets which satisfy due diligence requirements, including real estate valuation, investment feasibility, technical studies, legal reviews and other due diligence. The Fund's real estate investment portfolio includes investments in the residential, office, retail and education segments in Riyadh, Jeddah and Tabuk. The Fund will seek to invest in the future in other real estate property, which may include property investments outside the Kingdom of Saudi Arabia, as well as other investments, subject to the investment restrictions.

## 4. KEY SERVICE PROVIDERS

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<b>FUND MANAGER AND ADMINISTRATOR</b>	Alkhabeer Capital
<b>FUND CUSTODIAN</b>	Alinma Investment Company
<b>FUND AUDITOR</b>	Al Azem, Al Sudairy, Al Shaikh & Partners CPA's & Consultants (Member of Crowe Global)
<b>SHARI'A ADVISOR</b>	Shariyah Review Bureau W.L.L.
<b>VALUATORS</b>	(1) Abaad Advanced Company & Associate for Real Estate Valuation (Formerly Intimaa Advanced Company & Associate for Real Estate Valuation), (2) White Cubes Company, and (3) Valuation Expert Company (ValuStrat)

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# (B) FUND SUMMARY

## 1. KEY FUND FACTS

<b>TADAWUL SYMBOL</b>	4348
<b>BLOOMBERG SYMBOL</b>	ALKHABEE:AB
<b>LISTING DATE</b>	20 March 2019
<b>FUND TERM</b>	99 years starting as of the Listing Date, renewable
<b>FUND ASSETS SIZE*</b>	SAR 2,014,009,169
<b>FUND'S TOTAL CAPITAL AFTER THE SUBSEQUENT OFFERING</b>	SAR 1,410,088,480
<b>FINANCING*</b>	SAR 737,500,000
<b>RATIO OF LOANS TO FUND'S TOTAL ASSET VALUE*</b>	36.62%

\* As at 31 December 2021 (Audited).

## 2. FINANCIAL INDICATORS FOR FISCAL YEAR 2021

<b>VALUATION FREQUENCY</b>	Semi-annually
<b>FUND'S TOTAL ASSET VALUE</b>	SAR 2,014,009,169
<b>FUND UNITS' NET ASSET VALUE</b>	SAR 1,177,196,036
<b>RATIO OF TOTAL EXPENSES AND FEES TO FUND'S TOTAL ASSET VALUE</b>	7.53%
<b>RATIO OF FUND COSTS TO FUND'S TOTAL ASSET VALUE</b>	7.53%
<b>RATIO OF FUND COSTS TO FUND'S AVERAGE NET ASSET VALUE</b>	14.85%

## 3. FUND MARKET VALUE\*

<b>AS AT THE LISTING DATE</b>	SAR 664,423,860
<b>AS AT 30 JUNE 2019</b>	SAR 617,914,190
<b>AS AT 31 DECEMBER 2019</b>	SAR 724,222,007
<b>AS AT 30 JUNE 2020</b>	SAR 545,491,989
<b>AS AT 31 DECEMBER 2020</b>	SAR 966,897,812
<b>AS AT 30 JUNE 2021</b>	SAR 1,000,878,246
<b>AS AT 31 DECEMBER 2021</b>	SAR 1,222,546,712

\* Based on the Unit price.

#### 4. COMPARISON TABLE FOR CERTAIN FUND UNIT INDICATORS AS AT THE END OF 2019, 2020 AND 2021

	2019	2020	2021
<b>FUND NAV</b>	600,355,144	896,799,968	1,177,196,036
<b>FUND NAV PER UNIT</b>	9.0357	8.7092	8.3484
<b>HIGHEST PRICE PER UNIT</b>	11.20	11.82	10.02
<b>LOWEST PRICE PER UNIT</b>	8.91	8.15	8.52
<b>NUMBER OF OUTSTANDING UNITS</b>	66,442,386	102,971,013	141,008,848
<b>INCOME DISTRIBUTION PER UNIT *</b>	0.626	0.475	0.500
<b>RATIO OF BORROWING TO THE FUND'S TOTAL ASSET VALUE</b>	32.46%	42.91%	36.62%
<b>AMOUNT OF FINANCING AND EXPOSURE PERIOD</b>	First Financing: SAR 340 million (4.10 years)	First Financing: SAR 340 million (3.10 years) Second Financing: SAR 397.5 million (4.96 years)	First Financing: SAR 340 million (2.10 years) Second Financing: SAR 397.5 million (3.96 years)
<b>MATURITY DATE</b>	First Financing: 6 February 2024	First Financing: 6 February 2024 Second Financing: 7 September 2025	First Financing: 6 February 2024 Second Financing: 7 September 2025

\* Including cash dividends, declared by the Fund Manager on 31 January 2022, to be distributed to Alkhabeer REIT Unitholders at a rate of 1.25% of the initial Unit Price (SAR 0.125 per Unit), for the period from 1 October 2021 to 31 December 2021. The Fund Manager paid those distributions to the Unitholders on 24 March 2022.

#### 5. CUMULATIVE TOTAL RETURN

	2019	2020	2021
<b>TOTAL DIVIDEND DISTRIBUTIONS</b>	6.26%	11.01%	16.01%
<b>UNIT PRICE PERFORMANCE</b>	9.00%	-6.10%	-13.30%
<b>TOTAL RETURN SINCE LISTING</b>	15.26%	4.91%	2.71%

#### 6. ANNUAL TOTAL RETURN

	2019	2020	2021*
<b>TOTAL DIVIDEND DISTRIBUTIONS</b>	6.26%	4.75%	5.00%
<b>UNIT PRICE PERFORMANCE</b>	9.00%	-13.85%	-7.67%
<b>ANNUAL TOTAL RETURN**</b>	15.26%	-9.10%	-2.67%

\* Including cash dividends, declared by the Fund Manager on 31 January 2022, to be distributed to Alkhabeer REIT Unitholders at a rate of 1.25% of the initial Unit Price (SAR 0.125 per Unit), for the period from 1 October 2021 to 31 December 2021. The Fund Manager paid those distributions to the Unitholders on 24 March 2022.

\*\* Total Return = Unit Price Performance + Total Dividend Distributions.



## 7. FUND PERFORMANCE SUMMARY FOR FISCAL YEAR 2021

<b>NUMBER OF UNITS</b>	141,008,848
<b>NET ASSET VALUE AT ISSUANCE</b>	664,423,860
<b>NET ASSET VALUE</b>	1,177,196,036
<b>NET ASSET VALUE PER UNIT AT ISSUANCE</b>	10
<b>NET ASSET VALUE PER UNIT</b>	8.3484
<b>NET OPERATING RETURNS PER UNIT</b>	0.55
<b>TOTAL DISTRIBUTED DIVIDENDS PER UNIT*</b>	0.5

\* Including cash dividends, declared by the Fund Manager on 31 January 2022, to be distributed to Alkhabeer REIT Unitholders at a rate of 1.25% of the initial Unit Price (SAR 0.125 per Unit), for the period from 1 October 2021 to 31 December 2021. The Fund Manager paid those distributions to the Unitholders on 24 March 2022.

## 8. FISCAL YEAR DIVIDEND DISTRIBUTION (31 DECEMBER 2021)

<b>DIVIDEND DISTRIBUTION POLICY</b>	Annual dividend distributions of not less than 90% of the Fund's annual net profits. The Fund Manager aims to distribute cash dividends to investors quarterly
<b>TOTAL RENTAL INCOME FOR THE YEAR</b>	SAR 117,778,571
<b>UNIT PRICE AS AT THE END OF THE FISCAL YEAR (31 DECEMBER 2021)</b>	SAR 8.67
<b>RENTAL INCOME FOR THE YEAR TO UNIT PRICE</b>	9.63%
<b>TOTAL DIVIDENDS DISTRIBUTED FOR THE YEAR*</b>	SAR 65,749,695
<b>DIVIDENDS DISTRIBUTED PER UNIT*</b>	SAR 0.50 per Unit
<b>DISTRIBUTED DIVIDENDS TO INITIAL UNIT PRICE (% OF THE CAPITAL OF THE FUND)*</b>	5.00%
<b>DISTRIBUTED DIVIDENDS TO UNIT PRICE*</b>	5.77%

\* Including cash dividends, declared by the Fund Manager on 31 January 2022, to be distributed to Alkhabeer REIT Unitholders at a rate of 1.25% of the initial Unit Price (SAR 0.125 per Unit), for the period from 1 October 2021 to 31 December 2021.

## 9. TABLE SHOWING SERVICE CHARGES, COMMISSIONS AND FEES PAID BY THE FUND TO THIRD PARTIES OVER THE YEAR, AND THE RATIO OF TOTAL EXPENSES TO FUND TOTAL ASSETS

ITEM DESCRIPTION	AMOUNT	% EXPENSES
<b>FUND MANAGEMENT FEES</b>	7,709,674	0.38%
<b>ADMINISTRATOR FEES</b>	256,989	0.01%
<b>CUSTODIAN FEES</b>	445,028	0.02%
<b>SHARI'A SUPERVISORY COMMITTEE FEES</b>	15,000	0.00%
<b>TADAWUL / EDAA FEES</b>	694,587	0.03%
<b>AUDITOR FEES</b>	75,000	0.00%
<b>DIRECTORS' REMUNERATION</b>	42,000	0.00%
<b>FINANCING COSTS</b>	30,031,243	1.49%
<b>DEPRECIATION OF REAL ESTATE INVESTMENTS AND RIGHT OF USE OF ASSETS</b>	39,947,316	1.98%
<b>IMPAIRMENT OF REAL ESTATE INVESTMENTS</b>	41,136,021	2.04%
<b>PROJECTED CREDIT LOSSES</b>	20,500,000	1.02%
<b>OTHER</b>	10,756,723	0.53%
<b>FUND TOTAL FEES AND EXPENSES</b>	151,609,581	7.53%
<b>VALUE OF MANAGED ASSETS</b>	2,014,009,169	

\* The Fund Manager did not waive or reduce any fees.

# (C) FUND ASSETS

## 1. FUND ASSETS INFORMATION

<b>NUMBER OF PROPERTIES</b>	12 Properties
<b>LAND TOTAL AREA</b>	158,129 m <sup>2</sup>
<b>TOTAL BUILD-UP AREA</b>	177,837 m <sup>2</sup>

## 2. FUND UNDERLYING ASSETS (FUND'S PORTFOLIO)

PROPERTY NAME	OWNERSHIP	DEVELOPMENT STATUS	CITY	REAL ESTATE SEGMENT	BUA (SQ.M.)	OCCUPANCY RATE	RATIO OF RENT PER ASSET TO FUND TOTAL RENTS	RATIO OF VALUE OF LEASED PROPERTIES	RATIO OF VALUE OF UNLEASED PROPERTIES	RATIO OF UNCOLLECTED REVENUES TO TOTAL REVENUES	RATIO OF NON CASH EXPENSES TO FUND NET PROFIT*
Almalga Residential Compound	Freehold	Developed	Riyadh	Residential	41,361	92%	12%	12.41%	1.08%	0.30%	-
Gallery Mall	Leasehold	Developed	Tabuk	Retail	43,625	49%	6%	4.29%	4.46%	5.53%	-
Palazzo Center	Freehold	Developed	Riyadh	Retail	5,819	73%	5%	2.62%	0.97%	2.47%	-
P&Q (formerly Home Works Center)	Freehold	Developed	Riyadh	Retail	9,181	100%	4%	3.25%	0.00%	N/A	-
Ahlan Court Center	Freehold	Developed	Jeddah	Retail	2,758	100%	4%	3.37%	0.00%	0.63%	-
BIN II Plaza	Freehold	Developed	Jeddah	Mixed Use	21,305	100%	5%	4.48%	0.00%	0.81%	-
Elite Commercial Center	Freehold	Developed	Jeddah	Mixed Use	15,712	100%	10%	7.72%	0.00%	1.43%	-
Elegance Tower	Freehold	Developed	Riyadh	Office	58,278.70	100%	25%	24.25%	0.00%	N/A	-
Vision Education Colleges (formerly Al-Farabi)	Freehold	Developed	Riyadh	Education	44,113.52	100%	14%	10.99%	0.00%	N/A	-
Vision Education Colleges Training Building (formerly Al-Farabi)	Freehold	Under Construction	Riyadh	Education	48,770.76	100%	6%	3.69%	0.00%	N/A	-
Vision Education Colleges, Jeddah	Freehold	Developed	Jeddah	Education	13,785.00	100%	3%	5.09%	0.00%	N/A	-
Akun Warehouses	Freehold	Developed	Jeddah	Logistics	12,888.83	100%	7%	11.34%	0.00%	N/A	-

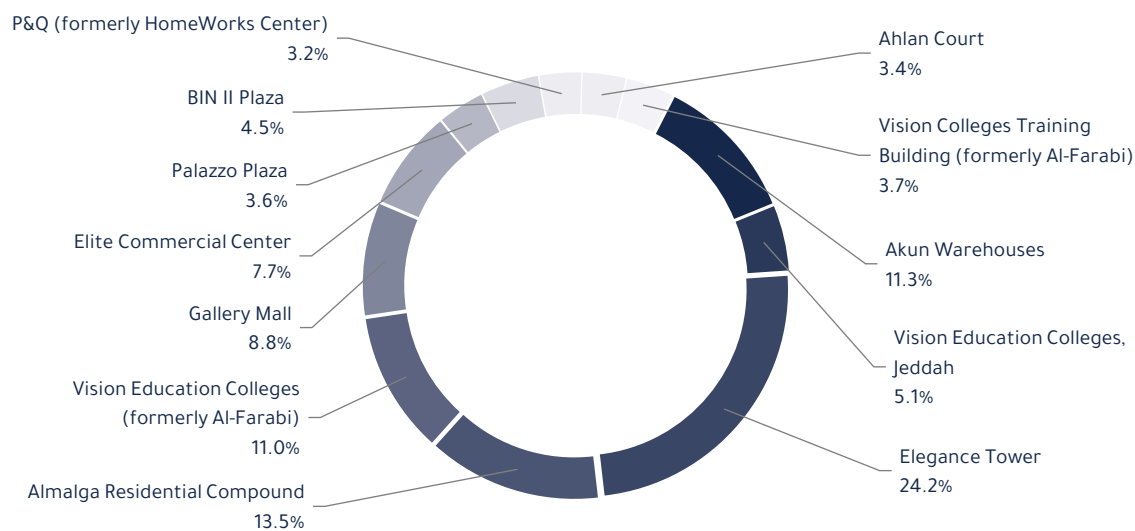
\* Not applicable. The Fund incurred a net loss of SAR 33.8 million.

### 3. FUND TARGETED ASSETS

The Fund continually seeks to invest in other properties, which may include real estate investments outside Saudi Arabia, as well as other investments, subject to the investment restrictions. The Fund aims to invest in diverse real estate assets, which meet the following criteria:

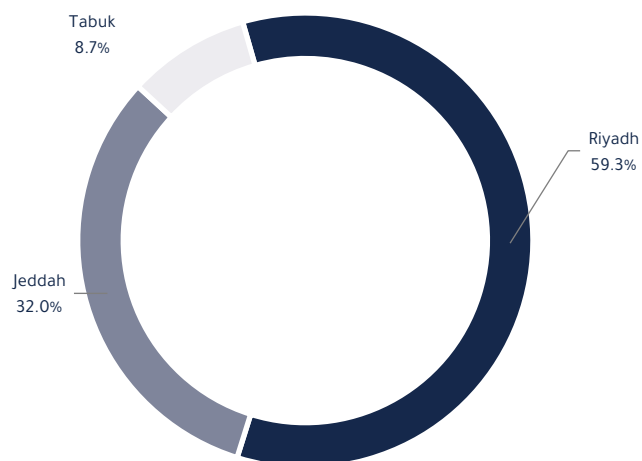
- The properties shall be freehold, structurally developed and capable of generating periodic rental income. A maximum of 25% of the Fund’s total asset value may be invested in properties under construction and usufruct rights.
- The properties shall be located in the Kingdom of Saudi Arabia, excluding Makkah and Medina. A maximum of 25% of the Fund’s total asset value may be invested in properties outside the Kingdom.
- Acquiring real estate assets in diverse segments, such as offices, retail outlets, residential complexes, warehouses and logistics facilities, as well as properties used in education and healthcare.

### 4. NAMES AND RATIOS OF THE PROPERTIES OF THE FUND PORTFOLIO TO THE TOTAL VALUE OF THE PROPERTIES



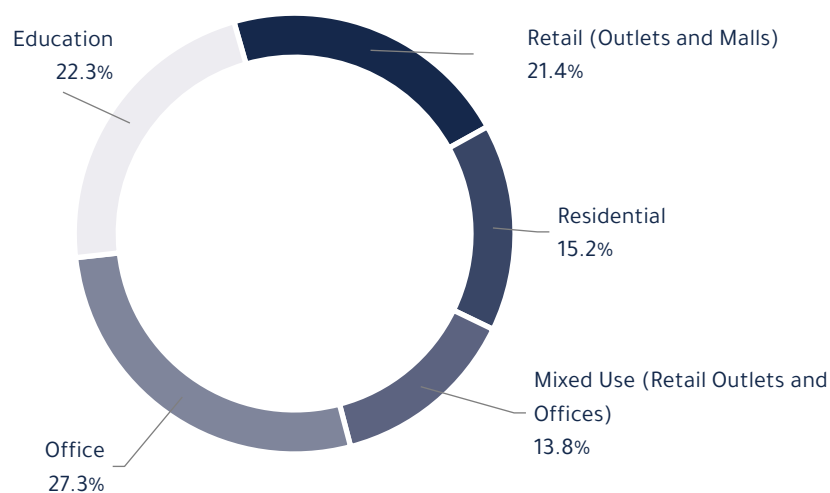
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## 5. DISTRIBUTION OF INVESTMENTS BY GEOGRAPHY



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## 6. DISTRIBUTION OF INVESTMENTS BY REAL ESTATE SEGMENT



## 7. FUND BENCHMARK AND THE SERVICE PROVIDER'S WEBSITE (IF ANY)

N/A.

## 8. REPORT CONTAINING THE FUND BOARD'S MOST IMPORTANT DECISIONS AND SUBJECTS DISCUSSED AND RESOLUTIONS MADE IN RELATION TO THEM

MEETING	MAIN SUBJECTS AND FUND BOARD RESOLUTIONS
<p><b>MEETING (NO. 1-2021) ON 7 FEBRUARY 2021</b></p>	<ol style="list-style-type: none"> <li>1. The Fund Board's Resolution made on 31 January 2021 concerning the approval of cash distributions for Q4 of FY 2020.</li> <li>2. The Fund Board's Resolution made on 25 January 2021 concerning the approval of the Fund's updated Terms and Conditions.</li> <li>3. The Fund Board's Resolution made on 8 December 2020 concerning the approval of amendments to the Fund's Terms and Conditions.</li> <li>4. The Fund Board's Resolution made on 24 November 2020 concerning the approval of the increase of the Fund's Total Asset Value for the purpose of acquiring additional real estate assets.</li> <li>5. The Fund Board's Resolution made on 15 November 2020 concerning the approval of special purpose (capital increase) financial statements (audited).</li> <li>6. The Fund Board's Resolution made on 15 November 2020 concerning the approval of cash distributions for H2, 2020.</li> <li>7. Withdrawal from Al-Obeikan Industrial City Property Acquisition Deal, and taking necessary legal action in coordination with the Fund's Legal Advisor, in order to protect the interests of the Unitholders.</li> </ol>
<p><b>MEETING (NO. 2-2021) ON 22 JUNE 2021</b></p>	<ol style="list-style-type: none"> <li>1. The Fund Board's Resolution made on 5 March 2021 concerning the approval of the amendments to the Fund's Terms and Conditions.</li> <li>2. The Fund Board's Resolution made on 25 March 2021 concerning the approval of the annual financial statements (audited) for the period ending 31 December 2020.</li> <li>3. The Fund Board's Resolution made on 6 April 2021 concerning the approval of the 2020 Annual Report.</li> <li>4. The Fund Board's Resolution made on 7 April 2021 concerning the approval of the appointment of service providers.</li> <li>5. The Fund Board's Resolution made on 12 April 2021 concerning the approval of the Alkhabeer REIT Fund's Investor Report for Q1 of FY 2021 (quarterly report).</li> <li>6. The Fund Board's Resolution made on 29 April 2021 concerning the approval of cash distributions for Q1 of FY 2021.</li> <li>7. The Fund Board's Resolution made on 4 May 2021 concerning the approval of the appointment of Daymat Fabrication Factory to complete the discrepancies and provide their services to Gallery Mall (one of the assets of the Fund).</li> <li>8. The Fund Board's Resolution made on 4 May 2021 concerning the approval of the appointment of Gulf Growth Marketing Company as Marketing and Leasing Manager of Plazzo Plaza (one of the assets of the Fund).</li> </ol>
<p><b>MEETING (NO. 3-2021) ON 15 JULY 2021</b></p>	<ol style="list-style-type: none"> <li>1. The addition of a detailed table showing the current rental value and occupancy rate, with comparisons to future projections, and the determination of the</li> </ol>

MEETING	MAIN SUBJECTS AND FUND BOARD RESOLUTIONS
	<p>rental price per square meter at Almalqa Compound, as well as the rental prices per square meter for all properties in detail.</p> <ol style="list-style-type: none"> <li>2. Updating the internal policy on the classification of funds, making this policy based on the nature and type of the Fund, and determining two main classifications, namely: the classification of publicly placed funds on the Saudi Stock Exchange, and the classification of the privately placed funds.</li> <li>3. Unanimous approval of the appointment of Aman Architecture as service provider to the Fund for designing the external parking spaces, the kiosks and the external ATM at the Gallery Mall Project.</li> <li>4. Unanimous approval of the signing of a Shari'a compliant hedging agreement with Al Rajhi Bank for the purpose of fixing the profit margin on the previously obtained credit facilities, and authorizing the Fund Manager to execute the hedging at a profit margin that is higher by 10 points than the Benchmark referred to on page (35) of the attached proposal.</li> <li>5. Unanimous approval to authorize Mr. Ahmed Saud Ghouth, in his capacity as Chief Executive Officer of the Fund Manager (Alkhabeer Capital), to sign all legal and regulatory documents related to the appointment of the service provider referred to in paragraph (1), as well as the hedging agreement referred to in paragraph (2) of this Resolution, and any other legal document which may be required to implement these resolutions.</li> <li>6. Majority disapproval of the registration of the Fund with the Zakat, Tax and Customs Authority (ZATCA) for zakat purposes. Two Fund Board members only agreed to the registration of the Fund with ZATCA, while three directors did not agree. The approval to increase the Fund's total asset value by SAR 1.65 billion by acquiring three properties in the Cities of Riyadh, Khobar and Jeddah.</li> </ol>

## 9. STATEMENT ON SPECIAL COMMISSIONS OBTAINED BY THE FUND MANAGER DURING THE PERIOD, CLEARLY SHOWING THEIR TYPES AND USES

N/A.

# (D) FUND HIGHLIGHTS

## 1. FUND HIGHLIGHTS AND ANY FUNDAMENTAL, MATERIAL OR SIGNIFICANT CHANGES AFFECTING THE PERFORMANCE OF THE FUND

**First, in respect of the increase of the Fund's total asset value and the Fund's properties**

ANNOUNCEMENT DATE	DETAILS
<b>5 JANUARY 2021</b>	On 5 January 2021, the Fund Manager announced that it had obtained CMA's approval on 4 January 2021 to increase the Fund's Total Asset Value, for the purpose of acquiring additional properties.
<b>8 FEBRUARY 2021</b>	On 8 February 2021, the Fund Manager announced that the Board of Directors has approved its recommendation not to proceed with the acquisition of a property located in the City of Riyadh. Therefore, the Fund Manager took necessary action to update the file of the Fund's Total Asset Value increase, including the Fund's Terms and Conditions, and to resubmit them in order to obtain necessary approvals.
<b>4 APRIL 2021</b>	<p>On 4 April 2021, the Fund Manager announced that it has updated the filed of the Fund's Total Asset Value increase, including the Fund's Terms and Conditions, and resubmitted them in order to obtain necessary approvals. Subsequently, the Fund Manager obtained the required approvals to update the file of the increase of the Fund's Total Asset Value. Through this increase of the Fund's Total Asset Value, the Fund Manager aimed to acquire the following additional properties:</p> <ul style="list-style-type: none"> <li>□ Vision Education College (formerly Al-Farabi Education College): An education property located in Rayan District, east of the Al-Haramain Expressway in Jeddah.</li> <li>□ Akun Warehouses: Cold stores located at the intersection of King Faisal Road and South Corniche Road, King Faisal Naval Base District, Jeddah.</li> </ul> <p>These acquisitions are capable of expanding and diversifying the Fund's asset base. As such, the Fund Manager expects that this development will have an overall positive effect on the performance and results of the Fund.</p>
<b>6 APRIL 2021</b>	On 6 April 2021, the Fund Manager announced an invitation to attend a meeting of the Unitholders of Alkhabeer REIT Fund to be held on 25 April 2021, to vote on the increase of the Fund's Total Asset Value for the purpose of acquiring the additional real estate assets, and paying related costs and expenses, as well as to vote on the Fund's amended Terms and Conditions which were fundamentally revised to reflect the increase of the Fund's Total Asset Value. On 22 April 2021, the Fund Manager announced that the amended Terms and Conditions were made available to enable the Unitholders to vote on the resolution to increase the Fund's Total Asset Value.
<b>7 APRIL 2021</b>	<p><b>In respect of the Fund's properties - Gallery Mall</b></p> <p>On 7 April 2021, the Fund Manager announced that a decision was made to terminate the lease agreement signed with the master tenant (lessee of 100% of the property), M/S Soliman Al Qadeebi Sons Contracting Company, related to the Fund's property Gallery Mall in Tabuk, for the purpose of safeguarding the interests of the Unitholders and reach a higher collection level by assigning this property to new operators aiming at raising the property's operating efficiency, as compared to the incumbent tenant, and thus maximize rental returns.</p>



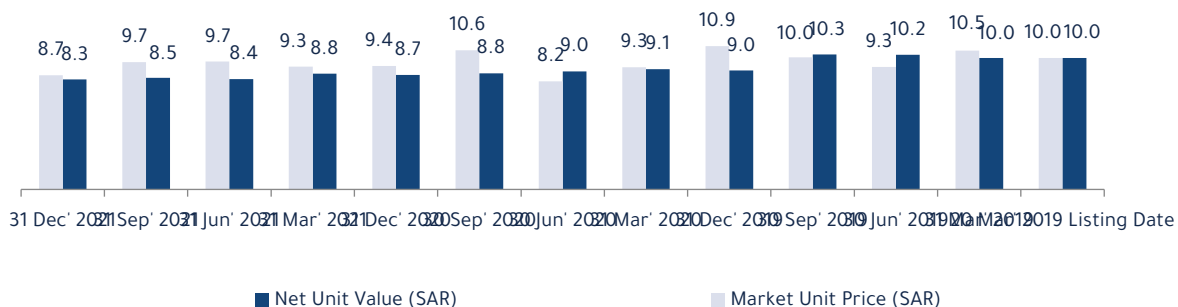
ANNOUNCEMENT DATE	DETAILS
	<p>compared to the previous lease agreement. The Fund Manager expects that this development will have a positive effect on the Fund in the medium to long term.</p> <p>Further to the Fund Manager announcement on 7 April 2021 as mentioned above, the Fund Manager announced on 14 April 2021 that the Fund Board has approved the Fund Manager's recommendation to appoint Al-Mahmal Facilities Services Company to carry out maintenance and operation of the property, and Gulf Growth Marketing Company to manage, market and lease the property. These appointments are expected to positively affect the property lease and revenues, and achieve a higher level of collection of rents.</p>
<b>26 APRIL 2021</b>	<p>On 26 April 2021, the Fund Manager announced the results of the Fund's Unitholders meeting held using state of the art media, "Tadawulaty" Services Platform, at 09:30 PM, Sunday, 25 April 2021, attended by 166 Unitholders holding 50.59% of the Fund Units by value, as follows:</p> <ol style="list-style-type: none"> <li>1. Approval of the increase of the Fund's Total Asset Value by offering additional Units for the purpose of acquiring additional properties, and in order to pay related costs and expenses. The decision was approved with a majority vote of 65.65%.</li> <li>2. Approval of the Fund's amended Terms and Conditions which were fundamentally updated to reflect the increase of the Fund's Total Asset Value. The decision was approved with a majority vote of 65.62%.</li> </ol>
<b>23 MAY 2021</b>	<p>On 23 May 2021, the Fund Manager announced the opening of subscription in the increase of the Fund's Total Asset Value by way of a subsequent public offering to investors, starting 30 May 2021 up to 17 June 2021 (15 business days).</p>
<b>23 JUNE 2021</b>	<p>On 23 June 2021, the Fund Manager announced the successful completion of the cash subscription in the second increase of the Fund's Total Asset Value, which ended on 17 June 2021 with an oversubscription of 307.36% of the total size of the cash offering. The Fund Manager announced that it will coordinate with the Lead Manager to complete the allocation process and return the oversubscription amounts to Subscribers within 15 business days after the closing date of the Offering Period of 17 June 2021, that is by no later than 8 June 2021.</p>
<b>27 JUNE 2021</b>	<p>On 27 June 2021, the Fund Manager announced the completion of the acquisition of Vision Education Colleges property, which is an education colleges building located in Al-Rayan District, east of the Expressway in Jeddah. On 30 June 2021, the Fund Manager announced the completion of the acquisition of Akun Warehouses property, a cold storage property located in King Faisal Naval Base District in Jeddah. Through the aforementioned acquisition, the Fund Manager seeks to expand the Fund's asset base and diversify the Fund's sources of income, which would positively affect the results and performance of the Fund.</p>
<b>25 JULY 2021</b>	<p>On 25 July 2021, the Fund Manager announced that the Fund Board has on 15 July 2021, approved the increase of the Fund's Total Asset Value, by acquiring three (3) properties (a commercial center in Riyadh, a commercial center in Jeddah and a housing compound in Khobar) with a total value of SAR 1.53 billion. Memoranda of understanding were signed between the owner and the Fund Manager. The Fund Manager will disclose any developments in this respect. The increase of the Fund's Total Asset Value is subject to the approval of the CMA and Saudi Tadawul, as well as the approval of the Fund Unitholders. The Fund Manager expects that the overall effect of this development on the Fund's performance and results will be positive.</p>
<b>28 JULY 2021</b>	<p>On 29 July 2021, the Fund Manager announced the execution of a Shari'a compliant hedging agreement with Al-Rajhi Bank on 27 July 2021, for the purpose of fixing the profit rate of the credit facilities used in the First Subsequent Offering in the amount of SAR 397.5 million, at a</p>

ANNOUNCEMENT DATE	DETAILS
	<p>fixed rate of 4.44%, in order to protect the Fund against profit margin volatility during the term of these facilities, starting on 1 September 2021 and maturing on 7 September 2025.</p>
<p><b>10 AUGUST 2021</b></p>	<p>On 10 August 2021, the Fund Manager announced that the Fund Board has on 2 Muharram 1443H, corresponding to 10 August 2021G, approved the updated Terms and Conditions to reflect the increase of the Fund's capital, and the Addendum thereto, which the Fund Manager intends to file with the CMA and Saudi Tadawul when applying for approval for the increase of the Fund's Total Asset Value for acquiring the new real estate assets targeted by the Fund Manager.</p>

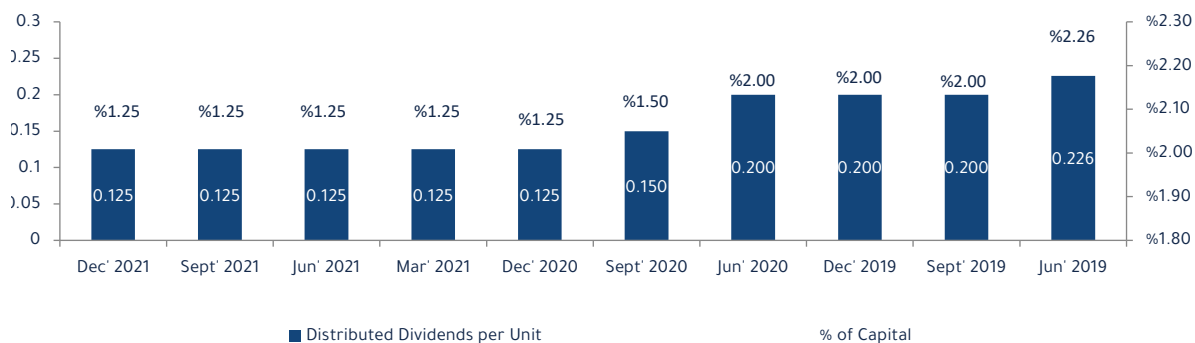
**Second, in respect of reports and distribution of dividends**

<b>ANNOUNCEMENT DATE</b>	<b>DETAILS</b>
<b>14 JANUARY 2021</b>	On 14 January 2021, the Fund Manager announced the availability of Alkhabeer REIT Fund's quarterly report for the period ending 31 December 2020.
<b>31 JANUARY 2021</b>	On 31 January 2021, the Fund Manager announced the distribution of cash dividends to Alkhabeer REIT Fund Unitholders at a rate of 1.25% of the initial Unit Price (SAR 0.125 per Unit) for the period from 1 October 2020 to 31 December 2020.
<b>30 MARCH 2021</b>	On 30 March 2021, the Fund Manager announced the availability Alkhabeer REIT Fund's Annual Financial Report.
<b>12 APRIL 2021</b>	On 12 April 2021, the Fund Manager announced the availability of Alkhabeer REIT Fund's Annual Report for the Fiscal Year ending 31 December 2020.
<b>14 APRIL 2021</b>	On 14 April 2021, the Fund Manager announced the availability of Alkhabeer REIT Fund's quarterly report for the period ending 31 March 2021.
<b>29 APRIL 2021</b>	On 29 April 2021, the Fund Manager announced the distribution of cash dividends to Alkhabeer REIT Fund Unitholders at a rate of 1.25% of the initial Unit Price (SAR 0.125 per Unit) for the period from 1 January 2021 to 31 March 2021.
<b>14 JULY 2021</b>	On 14 July 2021, the Fund Manager announced the availability of Alkhabeer REIT Fund's quarterly report for the period ending 30 June 2021.
<b>1 AUGUST 2021</b>	On 1 August 2021, the Fund Manager announced the distribution of cash dividends to Alkhabeer REIT Fund Unitholders at a rate of 1.25% of the initial Unit Price (SAR 0.125 per Unit) for the period from 1 April 2021 to 30 June 2021.
<b>18 AUGUST 2021</b>	On 18 August 2021, the Fund Manager announced the availability of Alkhabeer REIT Fund's reviewed proforma financial statements for the period ending 30 June 2021.
<b>22 AUGUST 2021</b>	On 22 August 2021, the Fund Manager announced the availability of the Fund assets semi-annual valuation reports for the period ending 30 June 2021, prepared by two accredited valuers in accordance with the Fund Assets Valuation Policy as provided in the Fund's Terms and Conditions.
<b>1 OCTOBER 2021</b>	On 1 October 2021, the Fund Manager announced the distribution of cash dividends to Alkhabeer REIT Fund Unitholders at a rate of 1.25% of the initial Unit Price (SAR 0.125 per Unit) for the period from 1 July 2021 to 30 September 2021.
<b>22 OCTOBER 2021</b>	On 22 October 2021, the Fund Manager announced the availability of Alkhabeer REIT Fund's quarterly report for the period ending 30 September 2021.
<b>31 JANUARY 2022</b>	Subsequent to this Annual Report, the Fund Manager announced on 31 January 2022 the distribution of cash dividends to Alkhabeer REIT Fund Unitholders at a rate of 1.25% of the initial Unit Price (SAR 0.125 per Unit) for the period from 1 October 2021 to 31 December 2021

## 2. NET ASSET VALUE AND UNIT PRICE PERFORMANCE

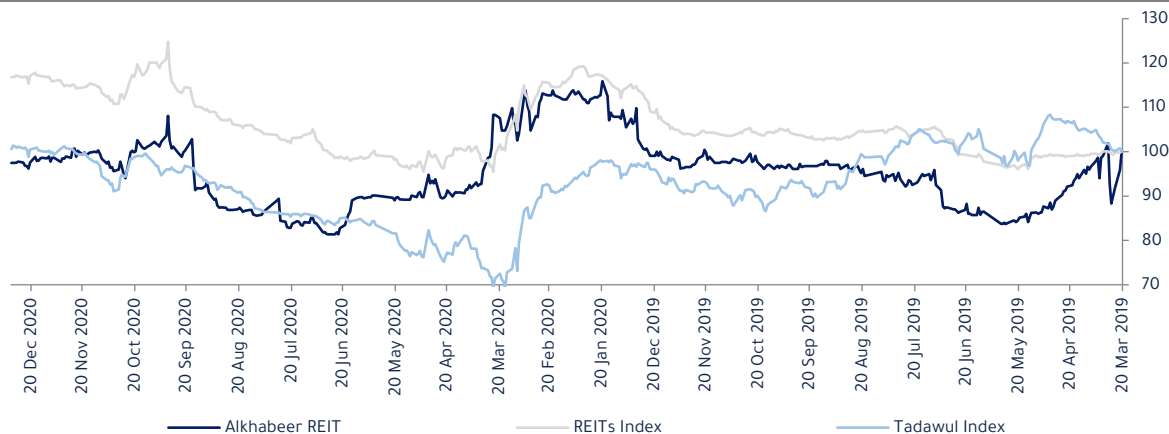


## 3. DIVIDEND DISTRIBUTIONS TO UNITHOLDERS \*



\* Including cash dividends, declared by the Fund Manager on 31 January 2022, to be distributed to Alkhabeer REIT Unitholders at a rate of 1.25% of the initial Unit Price (SAR 0.125 per Unit), for the period from 1 October 2021 to 31 December 2021.

## 4. PRICE PERFORMANCE COMPARISON



\* As at 31 December 2020

# (E) MARKET OVERVIEW

## 1. SAUDI ECONOMIC OVERVIEW

Saudi Arabia's economic recovery gathered steam in 2021. According to the Ministry of Finance, real GDP expanded by 3.3% in 2021, supported largely by a rebound in non-oil economic activity. Increasing vaccination rate and easing of containment measures supported a broader recovery in non-oil economic activities, which led to a 6.6% YoY growth in non-oil GDP in 2021 compared to a negative growth of 3.2% YoY in 2020. Oil GDP recorded a nominal growth of 0.2% in 2021, as the impact of higher oil prices was largely offset by lower production. Saudi crude oil production averaged 9.1 million barrels per day in 2021, down 1.3% compared to 2020's output.

The government's fiscal budget for 2022 expects the planned expenditure of SAR 955 billion, with a focus on facilitating economic growth, growing private sector contribution, and generating employment. The government plans to continue to implement mega infrastructure projects, housing unit construction and transport projects in line with the Saudi Vision 2030 initiatives. The government estimates to post a budget surplus of SAR 90 billion (2.5% of the GDP) in 2022, reversing the budget deficits of the past several years on the back of higher oil prices and disciplined government spending.

In November 2021, credit rating agency Moody's changed the Kingdom's outlook to "stable" from "negative" and affirmed the country's credit rating at A1. The change of outlook to "stable" reflects confidence in the kingdom's economic prospects and prudent fiscal measures.

The IMF expects the Saudi economy to grow 4.8% in 2022 and 2.8% in 2023. Meanwhile, the Saudi Ministry of Finance' fiscal budget for 2022 predicts the real GDP growth of 7.4% in 2022, supported by a strong rebound in the oil price, increased OPEC production and a large vaccine rollout in the kingdom.

## 2. REAL ESTATE SECTOR IN SAUDI ARABIA

Saudi Arabia's real estate market continued to recover in 2021, following the impact of the coronavirus (COVID-19) pandemic. This recovery is attributed to the sharp rise in residential real estate mortgage transactions, lower interest rates, higher oil prices, government reforms, improved economic activity and better business conditions. In its latest World Economic Outlook report, the International Monetary Fund (IMF) revised its projections for Saudi GDP growth up to 4.8% in 2022 and 2.8% in 2023. As per the Saudi Ministry of Finance' 2022 budget document, real GDP is expected to grow by 7.4% in 2022 driven by a spate of fiscal reforms initiated by the government, increased oil production, high government spending on infrastructure projects and growing private sector participation in the local economy.

The residential market benefited from the government's decision to exempt real estate transactions from 15% Value Added Tax (VAT), continued growth in the mortgage financing and accelerated housing unit completions under the Saudi Ministry of Housing's Sakani Program. According to the Saudi Central Bank, banks granted 201,481 new mortgage financing contracts worth SAR 152.5 million to individuals in 2021. Construction activity in the residential sector remained active in H2 2021 - various projects were delivered across the main cities.

Commercial activities improved in 2021; however, rents remained low in the office and retail markets. In 2021, Riyadh's real estate market outperformed Jeddah, DMA and Makkah markets. Riyadh witnessed healthy demand for office properties from international firms following the government's announcement that the firms must establish their regional headquarters in the Kingdom by 2024 to qualify for government contracts. The hospitality sector showed some recovery in Q4 2021, supported by Riyadh Season (an entertainment festival) and the Formula-1 race in Jeddah. However, Makkah's hospitality market was hit by a low inflow of visitors due to the pandemic. The performance of the hospitality sector is expected to improve in 2022, as the government has continued to push ahead with its tourism development strategy and expects to attract SARv220 billion in investments to its tourism sector by 2023. These investments coupled with the resumption of Umrah and Hajj pilgrimage are expected to drive the hospitality market in the long term.

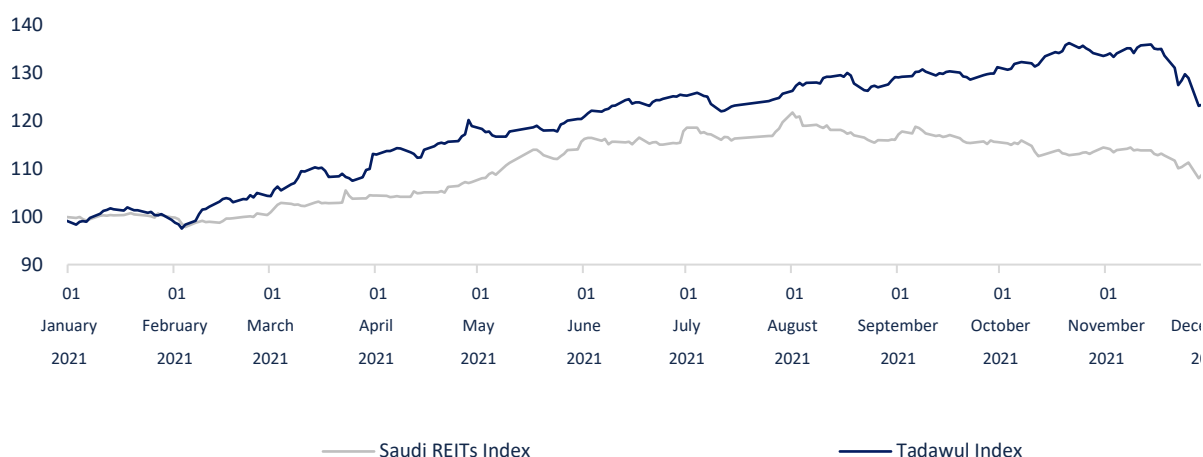
The Real Estate Price Index, developed by the Saudi General Authority for Statistics (GASTAT), edged up 0.5% YoY in 2021, attributed to a 1.1% growth in the residential sector. However, the commercial sector declined by 0.6%. The growth was primarily supported by strong demand for mortgages provided by banks and financial institutions. The residential housing sector is gaining strategic importance, as the government aims to boost homeownership from 62% in 2020 to 70% by 2030, as part of the Saudi Vision 2030 initiative. Commercial, retail and hospitality markets are showing signs of recovery. As the pandemic situation is becoming more manageable due to the availability of vaccines, future lockdowns and travel restrictions are likely to be less prolonged and will help in the quick recovery of these sectors.

### 3. KSA REITS PERFORMANCE

KSA REITs recovered in 2021 from the dual negative impact of the Coronavirus outbreak and a sharp fall in oil prices witnessed in 2020. A rebound in oil prices and improvement in economic activity led to demand revival in the COVID-19 affected sectors such as retail, hospitality and office market and supported the performance of REITs in 2021. Overall, the REITs index strengthened 7.6% YoY in 2021, as compared to a 2.1% YoY growth recorded in 2020. However, the TASI REITs index underperformed in the broader market.

### 4. PRICE PERFORMANCE COMPARISON

**KSA REITS INDEX V/S TADAWUL ALL SHARE INDEX**

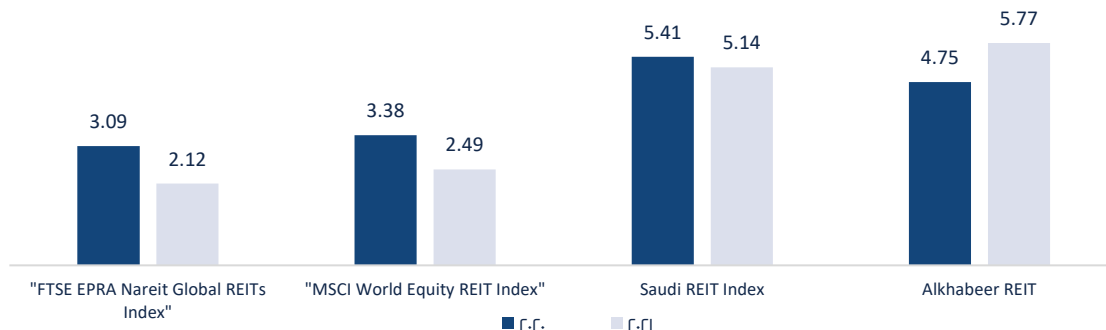


### 5. KSA REITS V/S GLOBAL REITS

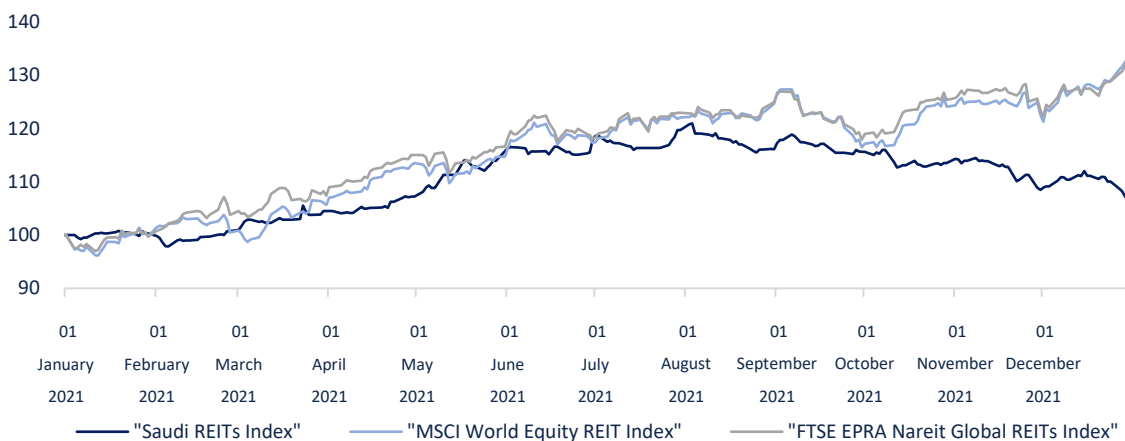
Despite the challenges of COVID-19, REITs across the globe recorded a strong performance. The stock price recovery and strong balance sheet enabled REITs to add more properties that will support future earnings growth. The KSA REITs index’s dividend yield slipped to 5.14% at the end of 2021 from 5.41% in 2020. However, in comparison with global market REIT indices, KSA REITs continues to offer a better dividend yield.

The KSA REITs index underperformed the MSCI World REIT Equity Index and FTSE EPRA Nareit Global REITs Index in 2021. The rental income of REITs is expected to further improve in 2022 as economic activity continues to be on an upward trend. With expectations of further recovery in the KSA REITs sector and a healthy dividend yield, it remains a good investment option for global investors.

**DIVIDEND YIELD (%)**



**6. GLOBAL AND SAUDI REITS INDICES RETURNS IN 2021**



**Notes:**

- Saudi REIT Index closed at 4,612 on 30 Dec 2021, up 7.6% from 4,285 on 31 Dec 2020.
- MSCI REIT Index closed at 1,501 on 31 Dec 2021, up 33.2% from 1,126 on 31 Dec 2020.
- FTSE EPRA Nareit Global REITs Index closed at 3,817 on 31 Dec 2021, up 32.6% from 2,878 on 31 Dec 2020.

# (F) RISK ASSESSMENT REPORT

EXPECTED RISKS	RISK DESCRIPTION	RISK MITIGATION TECHNIQUES
Rent Collection Risks	Inability of the tenants to pay rents due to the Fund in accordance with the lease agreements signed with them, whether because of the tenant's insolvency or given the lack of liquidity when the rent becomes due. As such, the Fund will not be able, or will fail, to fulfill its periodic or targeted distribution obligations towards Unitholders in the future in accordance with the Terms and Conditions of the Fund.	<ul style="list-style-type: none"> <li>□ The Fund Manager entered into long term lease agreements with key tenants. The Fund Manager continually endeavors to ensure that the Fund has a diverse and solid tenant base, including government and private sector tenants. This is considered the best strategy to minimize risks of tenant default.</li> <li>□ To implement specific marketing strategies through relevant property managers and operators to maintain and increase the occupancy rate of the Fund's properties.</li> <li>□ The average lease term of the Fund's properties was around 10 years.</li> <li>□ As collateral for payment of the rental values of the assets, 259 promissory notes were signed for a total value of SAR 1.644 million to guarantee rental payments.</li> <li>□ The Fund Manager also closely monitors the performance of the Fund's assets. Moreover, the Fund Manager regularly meets with the agents and operators of the properties to closely monitor the assets' performance and take immediate action to ensure that the Fund achieves its aspired objectives.</li> <li>□ The Fund Board approved a rent collection policy and an escalation policy in the event of failure of any tenant to pay rent when due.</li> </ul>
Exit Risks	Inability of the Fund Manager to timely liquidate the initial assets in accordance with the Fund's strategy. This risk becomes more significant as the Fund approaches the end of its specified term.	<ul style="list-style-type: none"> <li>□ The Fund Term is very long (99 years, renewable), during which the Fund Units will continue to be traded on the Exchange, giving Unitholders the ability to exit at the time of their choosing at prevailing market prices.</li> </ul>
Interest Rate Risks	Risks of fluctuation of the value of financial instruments due to the changes in the rates of return, which are affected by the interest rates.	<ul style="list-style-type: none"> <li>□ To mitigate high interest rate risks, the Fund Manager signed a Shari'a compliant hedging agreement:                             <ol style="list-style-type: none"> <li>1. In respect of the first financing amount drawn from Al Rajhi Bank in the sum of SAR 340 million, the Fund Manager signed on 19 November 2019, a Shari'a compliant hedging agreement with Banque Saudi Fransi to fix</li> </ol> </li> </ul>



EXPECTED RISKS	RISK DESCRIPTION	RISK MITIGATION TECHNIQUES
		<p>the profit margin of the signed credit facilities.</p> <p>2. In respect of the second financing amount drawn from Al Rajhi Bank in the sum of SAR 397.5 million, the Dund Manager signed on 27 July 2021, a Shari'a complaint hedging agreement Al Rajhi Bank to fix the profit margin of the signed credit facilities.</p>
<b>GEOGRAPHIC AND SECTOR CONCENTRATION RISKS</b>	<p>Risks related to the concentration of the Fund's assets in a particular geographic or real estate sector.</p>	<ul style="list-style-type: none"> <li>□ The Fund Manager endeavors to maintain low geographic concentration levels, thus reducing the severity of the effect caused by an economic recession potentially affecting a given geography or a specific real estate sector, on the Fund's assets.</li> <li>□ The Fund's assets are distributed across the retail, office, residential, education and logistics sectors in Jeddah, Riyadh and Tabuk. The Fund Manager aims to expand the scope of diversification by acquiring properties in new areas and sectors.</li> </ul>
<b>REGULATORY AND GEOPOLITICAL RISKS IN THE COUNTRY OF INVESTMENT</b>	<p>The risks of suffering potential adverse effects caused by new government regulations, policies and taxes or a sociopolitical instability, on the Fund's performance and/or liquidity.</p>	<ul style="list-style-type: none"> <li>□ At present, the Fund invests all of its assets in the Kingdom of Saudi Arabia. Investment abroad will not exceed 25% of Fund Size, in accordance with the Real Estate Investment Traded Funds Instructions.</li> <li>□ The Fund manages the various risks related to the country in which it invests, including any changes in regulations, policies and taxes, by closely monitoring the regulatory / political / taxation conditions in the Kingdom of Saudi Arabia and anticipating and preparing for any possible change.</li> </ul>
<b>ECONOMIC RISKS</b>	<p>The risks of suffering a potential effect caused by a macroeconomic deterioration, on the performance and valuation of the initial assets, and consequently on the Fund.</p>	<ul style="list-style-type: none"> <li>□ The Fund Manager continues to closely monitor the macroeconomic condition in general, and any development in the real estate sector in particular, to ensure proper decisions are made accordingly.</li> </ul>
<b>OPERATIONAL RISKS</b>	<p>Operational risks are the risks of incurring a direct or indirect loss as a result of unforeseen operating or capital expenses for the improvement and maintenance of the properties, whether for a cause related to the Fund's service provider, or for other externalities, in addition to the credit, liquidity,</p>	<ul style="list-style-type: none"> <li>□ The Fund Manager, Alkhabeer Capital, has an outstanding track record and vast experience in asset management.</li> <li>□ To ensure application of best practices, some of the key functions which require specialized expertise, were assigned to experienced and reputable service providers with good track records.</li> </ul>

EXPECTED RISKS	RISK DESCRIPTION	RISK MITIGATION TECHNIQUES
	<p>currency and market risks, such as those which may arise as a result of the legal and regulatory requirements.</p>	<ul style="list-style-type: none"> <li>□ The Fund's overall objective is to manage the operational risks to strike a balance in minimizing the financial losses and damages which may be caused to the Fund's reputation by achieving the Fund's investment objective, namely realizing returns to Unitholders.</li> <li>□ The Fund Manager also closely monitors the performance of the initial assets through periodic visits. It also holds regular meetings with the property managers to assess any issues / events which may lead to poor Fund performance.</li> </ul>
<p><b>REGULATORY COMPLIANCE RISKS</b></p>	<p>Failure of the Fund to comply with applicable laws, rules and regulations in effect in the countries where it aims to invest. Such risks include the legal, regulatory and Shari'a compliance risks.</p>	<ul style="list-style-type: none"> <li>□ The Fund Manager continues to monitor the Fund's compliance with applicable laws and regulations and the Fund's Terms and Conditions. It will also take all necessary action to fulfill these requirements.</li> </ul>
<p><b>VALUATION RISKS</b></p>	<p>The risks that the Fund's market value drops far below the Fund's Net Asset Value (NAV), which could occur as a result of an exaggerated valuation of the initial assets above their actual market value.</p>	<ul style="list-style-type: none"> <li>□ The Fund Manager addresses these risks by:                             <ul style="list-style-type: none"> <li>○ Before Acquisition: Carrying out due diligence and valuation.</li> <li>○ After Acquisition: Focusing on realizing benefits and increasing the value in the long term for Unitholders, as well as on its ability to generate sustainable periodic rental income yield with the capacity to achieve long term growth.</li> </ul> </li> <li>□ The risks of valuation of the Fund Units below the Net Asset Value (NAV) are subject to the overall market sentiment and the prevailing views on the real estate investment traded funds sector as a whole and the properties sector in general. When compared to global valuation, real estate investment traded (REIT) funds are traded in most countries at a price that is lower than the NAV.</li> </ul>
<p><b>LIQUIDITY RISKS</b></p>	<p>Liquidity risks relate to the potential inability of the Fund to secure sufficient cash resources to fully pay its obligations when they become due, or the Fund's inability to do so except with extremely unfavorable and harsh conditions.</p>	<ul style="list-style-type: none"> <li>□ The Fund Manager monitors the liquidity requirements by ensuring the availability of sufficient funds to fulfill any obligations when they arise, either through the allocation of a cash reserve, disposal of investment properties, or obtaining short term loans.</li> </ul>
<p><b>FUND MANAGER RISKS</b></p>	<p>Unitholders may not have the opportunity to participate in the day-to-day operations or</p>	<ul style="list-style-type: none"> <li>□ The Fund Manager has developed systems and controls to ensure the Fund's continued</li> </ul>

EXPECTED RISKS	RISK DESCRIPTION	RISK MITIGATION TECHNIQUES
	<p>decisions of the Fund or exercise any control thereon, including the investment decisions and actions taken by the Fund Manager, which may affect the Fund's performance.</p>	<p>compliance with regulations at all times, and manage the Fund's risks accordingly.</p> <ul style="list-style-type: none"> <li>□ The Fund Manager relies on the expertise of its highly experienced investment team to best serve the interests of Unitholders and realize the Fund's long term growth aspirations.</li> <li>□ When certain functions / activities are assigned to third parties, the Fund Manager shall perform the proper due diligence on those service providers and ensure their acceptance of, and compliance with, the Fund Manager's work conditions.</li> </ul>
<b>DEVELOPMENT RISKS</b>	<p>Relate to the Fund's assets under development, including the delay in the completion of works beyond the approved time schedule, any estimated development cost overrun, the inability to sign lease contracts to generate expected revenues, the failure of any of the contractors, in addition to factors related to the construction sector which are beyond the Fund Manager's control (including bad weather conditions, environmental changes, and unavailability of building materials in the market), obstructing the completion of the development works, and thus resulting in the inability to generate the projected revenues upon completion of the development activities.</p>	<ul style="list-style-type: none"> <li>□ The Fund invests the majority of its assets in developed properties. Investment in assets under development shall not exceed 25% of Fund Size, in accordance with applicable laws and regulations.</li> <li>□ The Fund Manager shall assign the development works to experienced service providers capable of completing works.</li> </ul>
<b>LEGAL RISKS</b>	<p>Relate to potential cases arising from disputes related to the contracts signed by the Fund with counterparties.</p>	<ul style="list-style-type: none"> <li>□ The Fund Manager shall have the contracts reviewed by the Fund's Legal Advisor before their signing to ensure the protection of the Fund's rights.</li> <li>□ In the event of a dispute, the Fund Manager shall appoint a qualified legal advisor to follow up the case.</li> </ul>
<b>COVID-19 PANDEMIC RISKS</b>	<p>The spread of the COVID-19 pandemic or any other pandemic may cause the Fund's properties to suspend operation or fail to achieve their projected income, due to curfew or</p>	<ul style="list-style-type: none"> <li>□ The Fund Manager will adopt a number of strategies to minimize the effects of such events, including for example:</li> <li>□ Signing long term lease agreements with master tenants.</li> </ul>

EXPECTED RISKS	RISK DESCRIPTION	RISK MITIGATION TECHNIQUES
	<p>restriction of movement in the areas where the Fund properties are located, or as a result of other consequences of the pandemic. This will give rise to a period of economic slowdown with a material adverse effect on amounts available for distribution to Unitholders.</p>	<ul style="list-style-type: none"> <li data-bbox="863 309 1374 398">□ Continually endeavoring to ensure that the Fund has a diverse and solid tenant base in the public and private sectors.</li> <li data-bbox="863 421 1326 454">□ Asset class and geographic diversification.</li> <li data-bbox="863 477 1382 768">□ The Fund Manager ensures maintaining low levels of geographic concentration, with the assets distributed in diverse real estate sectors. The Fund's assets are currently distributed in the retail, office, residential, education and logistics sectors, in Jeddah, Riyadh and Tabuk. The Fund Manager seeks to expand the diversification sphere by acquiring properties in new regions and sectors.</li> <li data-bbox="863 790 1374 1014">□ Continuously managing and monitoring the Fund's cash flows and effectively communicating with all tenants of the Fund's real estate assets during the crisis period, as well as endeavoring to find appropriate solutions (if applicable) to maximize benefit to the Fund.</li> <li data-bbox="863 1037 1302 1104">□ Strict compliance with the preventative measures and other government rules.</li> </ul>

# (G)FUND'S PROPERTY OVERVIEW



# FIRST PROPERTY: ALMALGA RESIDENTIAL COMPOUND

CITY OF RIYADH



## PROPERTY OVERVIEW

<b>PROPERTY LOCATION</b>	Almalga District, Wadi Hajr Street, off King Fahad Road, Riyadh
<b>LOCATION COORDINATES</b>	24°48'55.08"N 46°36'51.06"E
<b>USE</b>	Residential
<b>OWNERSHIP</b>	Freehold
<b>PROPERTY DESCRIPTION</b>	Gated Residential Compound
<b>PROPERTY COMPONENTS</b>	<p>18 buildings comprised of 290 furnished residential units divided as follows:</p> <ul style="list-style-type: none"> <li>□ 242 units offering three bedrooms</li> <li>□ 10 units offering two bedrooms</li> <li>□ 38 units (studio) in the basement</li> </ul>
<b>NUMBER OF FLOORS</b>	3 floors and a penthouse
<b>PROPERTY FACILITIES</b>	The Property has an underground car parking area of 10,000 m <sup>2</sup> in the basement, indoor swimming pools, common entertainment areas, multi-use halls and two health clubs
<b>LAND AREA</b>	15,925 m <sup>2</sup>
<b>TOTAL BUILT-UP AREA</b>	41,361 m <sup>2</sup>

## SECOND PROPERTY: GALLERY MALL

CITY OF TABUK



### PROPERTY OVERVIEW

<b>PROPERTY LOCATION</b>	Alsalihiya District, King Fahad Road intersection with Prince Fahad bin Sultan Road, Tabuk
<b>LOCATION COORDINATES</b>	28°23'37.8"N 36°33'38.1"E
<b>USE</b>	Retail
<b>OWNERSHIP</b>	Leasehold. A contract for the investment of a land owned by the Government, represented by the Municipality of Tabuk, allowing the investor to build a marketplace, acquire its proceeds for a period of 25 years (starting 1434H), and thereafter return it to the Municipality of Tabuk on a build and operate basis.
<b>PROPERTY DESCRIPTION</b>	Closed Mall
<b>PROPERTY COMPONENTS</b>	The Mall includes 139 retail stores, 15 restaurants, 39 kiosks and 4 coffee shops
<b>NUMBER OF FLOORS</b>	Basement and two floors
<b>PROPERTY FACILITIES</b>	The Mall includes an underground 300-car parking space, in addition to a 600-car outdoor parking lot, 3 elevators, 6 escalators, 3 service lifts and an entertainment hall
<b>LAND AREA</b>	41,630 m <sup>2</sup>
<b>TOTAL BUILT-UP AREA</b>	43,625 m <sup>2</sup>

## THIRD PROPERTY: PALAZZO PLAZA

CITY OF RIYADH



### PROPERTY OVERVIEW

<b>PROPERTY LOCATION</b>	Sulaimaniya District, King Mohamed V Street, Riyadh
<b>LOCATION COORDINATES</b>	24°42'1.22"N 46°42'7.56"E
<b>USE</b>	Retail
<b>OWNERSHIP</b>	Freehold
<b>PROPERTY DESCRIPTION</b>	Mall (Plaza)
<b>PROPERTY COMPONENTS</b>	The Property includes 15 retail outlets
<b>NUMBER OF FLOORS</b>	2 Floors (Ground Floor and Mezzanine)
<b>PROPERTY FACILITIES</b>	The Property includes a car parking area of 3,000 m <sup>2</sup>
<b>LAND AREA</b>	6,050 m <sup>2</sup>
<b>TOTAL BUILT-UP AREA</b>	5,819 m <sup>2</sup>



## FOURTH PROPERTY: B&Q (FORMERLY HOMEWORKS CENTER)

CITY OF RIYADH



### PROPERTY OVERVIEW

<b>PROPERTY LOCATION</b>	King Fahad District, King Abdullah Road, Riyadh
<b>LOCATION COORDINATES</b>	24°43'54.5"N 46°40'16.9"E
<b>USE</b>	Retail
<b>OWNERSHIP</b>	Freehold
<b>PROPERTY DESCRIPTION</b>	A retail center under the HomeWorks brand
<b>PROPERTY COMPONENTS</b>	Mall (Outlet)
<b>NUMBER OF FLOORS</b>	One floor, in addition to a basement
<b>PROPERTY FACILITIES</b>	Underground and outdoor parking spaces
<b>LAND AREA</b>	7,000 m <sup>2</sup>
<b>TOTAL BUILT-UP AREA</b>	9,181 m <sup>2</sup>

# FIFTH PROPERTY: AHLAN COURT

CITY OF JEDDAH



## PROPERTY OVERVIEW

<b>PROPERTY LOCATION</b>	Al Andalus District, Prince Mohammed bin Abdulaziz Street, Jeddah
<b>LOCATION COORDINATES</b>	21°32'50.87"N 39° 8'23.63"E
<b>USE</b>	Retail
<b>OWNERSHIP</b>	Freehold
<b>PROPERTY DESCRIPTION</b>	Mall (Plaza)
<b>PROPERTY COMPONENTS</b>	9 outlets and 1 office
<b>NUMBER OF FLOORS</b>	2 Floors
<b>PROPERTY FACILITIES</b>	Car parking spaces
<b>LAND AREA</b>	4,342 m <sup>2</sup>
<b>TOTAL BUILT-UP AREA</b>	2,758 m <sup>2</sup>

## SIXTH PROPERTY: BIN II PLAZA

CITY OF JEDDAH



### PROPERTY OVERVIEW

<b>PROPERTY LOCATION</b>	Amwaj District, Prince Abdulmajeed Road intersection with Prince Nayef Road, Jeddah
<b>LOCATION COORDINATES</b>	21°45'41.6"N 39°04'42.3"E
<b>USE</b>	Retail / Office
<b>OWNERSHIP</b>	Freehold
<b>PROPERTY DESCRIPTION</b>	Three commercial and retail buildings
<b>PROPERTY COMPONENTS</b>	Comprised of 21 offices and 42 retail outlets
<b>NUMBER OF FLOORS</b>	3 Floors
<b>PROPERTY FACILITIES</b>	Outdoor car parking spaces
<b>LAND AREA</b>	20,642 m <sup>2</sup>
<b>TOTAL BUILT-UP AREA</b>	21,305 m <sup>2</sup>

# SEVENTH PROPERTY: ELITE COMMERCIAL CENTER

CITY OF JEDDAH



## PROPERTY OVERVIEW

<b>PROPERTY LOCATION</b>	Al Andalus District, Prince Mohammed Bin Abdulaziz Street, Jeddah
<b>LOCATION COORDINATES</b>	21°32'50.86"N 39° 8'22.36"E
<b>USE</b>	Retail / Office
<b>OWNERSHIP</b>	Freehold
<b>PROPERTY DESCRIPTION</b>	Office Commercial Center
<b>PROPERTY COMPONENTS</b>	6 retail outlets and 45 offices
<b>NUMBER OF FLOORS</b>	5 Floors and Mezzanine
<b>PROPERTY FACILITIES</b>	Outdoor and underground car parking spaces
<b>LAND AREA</b>	4,320 m <sup>2</sup>
<b>TOTAL BUILT-UP AREA</b>	15,712 m <sup>2</sup>

# EIGHTH PROPERTY: ELEGANCE TOWER

CITY OF RIYADH



## PROPERTY OVERVIEW

<b>PROPERTY LOCATION</b>	Moroj District, King Fahad Street, Riyadh
<b>LOCATION COORDINATES</b>	24°45'28.64"N 46°39'3.72"E"
<b>USE</b>	Office
<b>OWNERSHIP</b>	Freehold
<b>PROPERTY DESCRIPTION</b>	Office Tower
<b>PROPERTY COMPONENTS</b>	Offices
<b>NUMBER OF FLOORS</b>	27 Floors and a 5-storey car parking with 720 parking spaces
<b>PROPERTY FACILITIES</b>	The Property includes car parking spaces, a restaurant, a swimming pool, a gym and a helipad
<b>LAND AREA</b>	5,695 m <sup>2</sup>
<b>TOTAL BUILT-UP AREA (AS PER THE BUILDING PERMIT)</b>	58,278.7 m <sup>2</sup>

# NINTH PROPERTY: VISION EDUCATION COLLEGES (FORMERLY AL-FARABI)

CITY OF RIYADH



## PROPERTY OVERVIEW

<b>PROPERTY LOCATION</b>	Ishbilia Street, Arab Sea Road, Riyadh
<b>LOCATION COORDINATES</b>	46,802286, 24, 792072
<b>USE</b>	Education
<b>OWNERSHIP</b>	Freehold
<b>PROPERTY DESCRIPTION</b>	Education Colleges
<b>PROPERTY COMPONENTS</b>	93 offices, 67 classrooms and 26 laboratories
<b>NUMBER OF FLOORS</b>	(Five Floors), Two Basement and Ground, Two Floors and a 352-Car Parking Lot
<b>PROPERTY FACILITIES</b>	The Property includes a rest area, a cafeteria and a prayer room
<b>LAND AREA</b>	17,046 m <sup>2</sup>
<b>TOTAL BUILT-UP AREA (AS PER THE BUILDING PERMIT)</b>	44,113.61 m <sup>2</sup>

## TENTH PROPERTY: VISION COLLEGES TRAINING BUILDING (FORMERLY AL-FARABI)

CITY OF RIYADH



### PROPERTY OVERVIEW

<b>PROPERTY LOCATION</b>	Ishbilila Street, Arab Sea Road, Riyadh
<b>LOCATION COORDINATES</b>	46,801256, 24, 792526
<b>USE</b>	Education
<b>OWNERSHIP</b>	Freehold
<b>PROPERTY DESCRIPTION</b>	Training building for education colleges
<b>PROPERTY COMPONENTS</b>	In process of completing the development works in order for the building to be allocated for the training clinics
<b>NUMBER OF FLOORS</b>	Four floors (Basement, Ground Floor and two Floors)
<b>LAND AREA</b>	11,340 m <sup>2</sup>
<b>TOTAL BUILT-UP AREA (AS PER THE BUILDING PERMIT)</b>	48,770.76 m <sup>2</sup>

# ELEVENTH PROPERTY: VISION EDUCATION COLLEGES, JEDDAH

CITY OF JEDDAH



## PROPERTY OVERVIEW

<b>PROPERTY LOCATION</b>	Rayan District, East of Al-Haramain Expressway, Jeddah
<b>LOCATION COORDINATES</b>	21°39'30.6"N 39°12'16.7"E
<b>USE</b>	Education
<b>OWNERSHIP</b>	Freehold
<b>PROPERTY DESCRIPTION</b>	Education colleges
<b>PROPERTY COMPONENTS</b>	Reception + Administration Offices + Clinics + Laboratories + Classrooms + 4 Elevators
<b>NUMBER OF FLOORS</b>	Thirteen Floors + Basement + Ground Floor
<b>LAND AREA</b>	3,020.18 m <sup>2</sup>
<b>TOTAL BUILT-UP AREA (AS PER THE BUILDING PERMIT)</b>	13,875 m <sup>2</sup>



## TWELFTH PROPERTY: AKUN WAREHOUSES

CITY OF JEDDAH



### PROPERTY OVERVIEW

<b>PROPERTY LOCATION</b>	Intersection of King Faisal Road and South Corniche Road, King Faisal Naval Base District
<b>LOCATION COORDINATES</b>	21°19'50.2"N 39°11'26.1"E
<b>USE</b>	Logistics
<b>OWNERSHIP</b>	Freehold
<b>PROPERTY DESCRIPTION</b>	Cold Storage
<b>PROPERTY COMPONENTS</b>	36 Cold Stores + Administration Offices
<b>NUMBER OF FLOORS</b>	One Ground Floor + Mezzanine
<b>LAND AREA</b>	21,118.53 m <sup>2</sup>
<b>TOTAL BUILT-UP AREA (AS PER THE BUILDING PERMIT)</b>	12,888.83 m <sup>2</sup>



(H) FINANCIAL  
STATEMENTS FOR FISCAL  
YEAR ENDING 31  
DECEMBER 2021

**ALKHABEER REIT FUND - Expressed in Saudi Riyals**  
(Managed by Alkhabeer Capital Company)  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**  
**AND INDEPENDENT AUDITOR'S REPORT**



**Crowe**

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

**ALKHABEER REIT FUND - Expressed in Saudi Riyals**  
(Managed by Alkhabeer Capital Company)  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021**  
**AND INDEPENDENT AUDITOR'S REPORT**

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Statement of Profit or Loss and Other Comprehensive Income	7
Statement of Changes in Equity Attributable to Unitholders	8
Statement of Cash Flows	9
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## INDEPENDENT AUDITORS' REPORT

**To: The Unitholders**  
**Alkhabeer Reit Fund - Expressed in Saudi Riyals**  
**(Managed by Alkhabeer Capital Company)**  
**Jeddah, Saudi Arabia**

### **Opinion**

We have audited the financial statements of **Alkhabeer Reit Fund (A Real Estate Investment Traded Fund)** ("The Fund") managed by **Alkhabeer Capital Company ("Fund Manager")**, which comprise the statement of financial position as of December 31, 2021, the statement of profit or loss and other comprehensive income, statement of changes in equity attributable to unitholders and statement of cash flows, and the accompanying notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2021, and its financial performance and its cash flows for the year 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 that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Fund in accordance with the professional code of conduct and ethics, that are endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the 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.

### **Key Audit Matters**

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

Audit, Tax & consultants

Salman B. AlSudairy  
License No. 283

Musab A. AlShaikh  
License No. 658

Abdullah M. AlAzem  
License No. 335

**Independent Auditors' Report – Continued**

**To: The Unitholders**  
**Alkhabeer Reit Fund - Expressed in Saudi Riyals**  
 (Managed by Alkhabeer Capital Company)  
 Jeddah, Saudi Arabia

Key Audit Matters	How our audit addressed key audit matters
<p><b>Investment properties and right of use asset</b></p> <p>Impairment of Investment properties and right of use asset</p> <p>As at 31 December 2021, the book value of investment properties and right of use asset held by the Fund amounted to SR 1.846 million (2020: SR 1.591 million).</p> <p>Investment property and right of use asset 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 and right of use asset 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>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>Notes 7 and 8 clarify that the financial statements for significant judgements and assumptions applied in the determination of the recoverable amounts of the investment properties and right of use asset and note 3 clarify the details of related accounting policies.</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"> <li>▪ Obtained an understanding of the management processes for identification, and mitigation of valuation risk.</li> <li>▪ Performed test of details on the acquisition costs and ensured that all costs are appropriately capitalized.</li> <li>▪ Assessed the Fund Manager's determination of the following:               <ul style="list-style-type: none"> <li>- The factors considered by the Fund in impairment indicator assessment, and</li> <li>- The base used in determine cash generating units. And it's the method used to calculate the recoverable amount.</li> </ul> </li> <li>▪ 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.</li> <li>▪ Assessed the key assumptions and estimates used, including discount 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.</li> <li>▪ Compared the recoverable amount of each cash-generating unit with its carrying value.</li> <li>▪ We have reviewed the financial statement disclosure</li> <li>▪ We have reviewed the disclosures of key assumptions and judgements.</li> </ul>



**Independent Auditors' Report – Continued**

**To: The Unitholders**  
**Alkhabeer Reit Fund - Expressed in Saudi Riyals**  
 (Managed by Alkhabeer Capital Company)  
 Jeddah, Saudi Arabia

**Key Audit Matters (Continued)**

Key Audit Matters	How our audit addressed key audit matters
<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 financial statements disclosure.</p>	<ul style="list-style-type: none"> <li>▪ 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 right of use asset.</li> <li>▪ 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.</li> </ul>

**Other information included in the Fund's 2021 Annual Report**

Other information consists of the information included in the Fund's 2021 Annual Report, other than the financial statements and our auditor's report thereon.

Fund Board is responsible for the other information. The Fund's 2021 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

**Responsibilities of Fund's managers and Those Charged with Governance for the Financial Statements**

Fund's Manager is responsible for the preparation and fair presentation of the 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 issued by the Capital Market Authority and the Funds terms and conditions and information memorandum, and for such internal control as Fund's Manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Fund'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.

Those charged with governance (Fund's Manager) is responsible for overseeing the Fund's financial reporting process.



## **Independent Auditors' Report - Continued**

**To: The Unitholders**  
**Alkhabeer Reit Fund - Expressed in Saudi Riyals**  
(Managed by Alkhabeer Capital Company)  
**Jeddah, Saudi Arabia**

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 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 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 financial statements, including the disclosures, and whether the 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 - Expressed in Saudi Riyals**  
(Managed by Alkhabeer Capital Company)  
Jeddah, Saudi Arabia

#### Auditors' Responsibilities for the Audit of the 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 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.



**AlAzem, AlSudairy, AlShaikh & Partners**  
**Certified Public Accountants**



**Salman B. AlSudairy**  
License No. (283)

25 Sha'aban 1443H (March 28, 2022)  
Jeddah, Kingdom of Saudi Arabia

**ALKHABEER REIT FUND**  
 (Managed by Alkhabeer Capital Company)  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2021**  
 (Expressed in Saudi Riyals)

	Notes	As at December 31, 2021	As at December 31, 2020
<b>ASSETS</b>			
Cash at Banks		50,968,681	44,108,858
Account Receivables	4	21,981,126	35,693,221
Prepaid expenses and other debit balances	5	14,984,081	7,278,317
Due from a related party	6	18,781	19,266
Right of use asset	7	150,191,103	159,312,565
Investment properties	8	1,695,495,117	1,431,786,190
<b>Total Assets</b>		<b>1,933,638,889</b>	<b>1,678,198,417</b>
<b>LIABILITIES AND EQUITY ATTRIBUTABLE TO UNITHOLDERS</b>			
<b>LIABILITIES</b>			
Credit facilities	9	745,921,994	746,053,038
Due to related parties	6	5,644,519	5,865,852
Lease liabilities	7	16,379,505	17,101,709
Accrued expenses and other liabilities	10	68,867,115	53,023,595
<b>Total Liabilities</b>		<b>836,813,133</b>	<b>822,044,194</b>
<b>EQUITY ATTRIBUTABLE TO UNITHOLDERS</b>		<b>1,096,825,756</b>	<b>856,154,223</b>
<b>Total Liabilities and Equity</b>		<b>1,933,638,889</b>	<b>1,678,198,417</b>
<b>Number of units issued (unit)</b>		<b>141,008,848</b>	<b>102,971,013</b>
Equity per unit – book value	8	7.7784	8.3145
Equity per unit – fair value	8	8.3484	8.7092

The accompanying notes from (1) to (22) form an integral part of these financial statements.

**ALKHABEER REIT FUND**

(Managed by Alkhabeer Capital Company)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2021**

(Expressed in Saudi Riyals)

		<b>FOR THE YEAR ENDED DECEMBER 31</b>	
	Notes	<b>2021</b>	<b>2020</b>
Rental income		<b>117,778,571</b>	88,230,559
<b>Expenses</b>			
Properties / Facilities management fees	12	<b>(7,071,509)</b>	(3,735,906)
Administration and custody fees	6,12	<b>(702,018)</b>	(507,386)
Management fees	6,12	<b>(7,709,674)</b>	(5,633,442)
Finance costs		<b>(30,031,243)</b>	(19,756,439)
Depreciation of investment properties and right of use asset	7,8	<b>(39,947,316)</b>	(27,299,040)
(Impairment) / Reversal of impairment of investment properties	8	<b>(41,136,021)</b>	1,939,099
Provision for expected credit losses	4	<b>(20,500,000)</b>	(13,858,672)
Other expenses	11	<b>(4,511,800)</b>	(18,249,195)
<b>Total expenses</b>		<b>(151,609,581)</b>	(87,100,981)
<b>(Loss) / Profit for the year</b>		<b>(33,831,010)</b>	1,129,578
Other comprehensive income		-	-
<b>Total other comprehensive (loss) / income for the year</b>		<b>(33,831,010)</b>	1,129,578

The accompanying notes from (1) to (22) form an integral part of these financial statements.

**ALKHABEER REIT FUND**

(Managed by Alkhabeer Capital Company)

**STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO UNITHOLDERS****FOR THE YEAR ENDED DECEMBER 31, 2021**

(Expressed in Saudi Riyals)

	<b>FOR THE YEAR ENDED DECEMBER 31</b>	
Note	<b>2021</b>	<b>2020</b>
<b>Equity Attributable to Unitholders</b>		
Equity attributable to unitholders at the beginning of the year	<b>856,154,223</b>	571,745,229
Cash subscriptions with a nominal value of 10 riyals for each unit	<b>157,365,000</b>	37,956,770
Subscriptions issued against investment properties	<b>223,013,350</b>	327,329,500
Discount on issuance of underwriting units	<b>(44,880,842)</b>	(39,984,248)
Dividends	<b>(60,994,965)</b>	(42,022,606)
Total comprehensive (Loss) / income for the year	<b>(33,831,010)</b>	1,129,578
<b>Equity attributable to unitholders at the end of the year</b>	<b>1,096,825,756</b>	<b>856,154,223</b>

Transactions in units for the year are summarized as follows:

	<b>2021</b>	<b>2020</b>
<b>Number of units at the beginning of the year</b>	<b>102,971,013</b>	66,442,386
Subscription of units - Cash	<b>15,736,500</b>	3,795,677
Subscription of units - In kind contribution	<b>22,301,335</b>	32,732,950
<b>Number of units at the end of the year</b>	<b>141,008,848</b>	<b>102,971,013</b>

The accompanying notes from (1) to (22) form an integral part of these financial statements.

**ALKHABEER REIT FUND**  
(Managed by Alkhabeer Capital Company)  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**  
(Expressed in Saudi Riyals)

	<b>FOR THE YEAR ENDED</b>	
	<b>DECEMBER 31</b>	
	<b>2021</b>	<b>2020</b>
<b><u>CASH FLOW FROM OPERATING ACTIVITIES</u></b>		
(loss) / Profit for the year	<b>(33,831,010)</b>	1,129,578
<b>Adjustment for:</b>		
Depreciation of investment properties and right-of-use asset	<b>39,947,316</b>	27,299,040
Impairment / (Reversal of impairment) of investment properties	<b>41,136,021</b>	(1,939,099)
Finance cost charged on lease liabilities	<b>856,796</b>	971,485
Finance cost	<b>29,174,447</b>	18,784,954
Expected credit losses	<b>20,500,000</b>	13,858,672
<b>Changes in operating assets and liabilities:</b>		
Due from a related party	<b>485</b>	734
Account receivables	<b>(13,762,905)</b>	(28,535,650)
Prepaid expenses and other debit balances	<b>(7,705,764)</b>	(3,757,708)
Due to related parties	<b>(221,333)</b>	3,107,055
Accrued expenses and other liabilities	<b>15,294,939</b>	35,675,719
<b>Net cash provided by operating activities</b>	<b>91,388,992</b>	<b>66,594,780</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Additions to investment properties	<b>(138,312,470)</b>	(417,562,705)
Addition to right-of-use asset	<b>(658,327)</b>	-
<b>Net cash used in investing activities</b>	<b>(138,970,797)</b>	<b>(417,562,705)</b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Net movement in credit facilities	<b>(131,044)</b>	397,499,999
Issuance of cash subscriptions	<b>138,797,503</b>	33,802,022
Dividends	<b>(54,019,965)</b>	(37,140,106)
Lease payments	<b>(1,579,000)</b>	(1,579,000)
Finance cost paid	<b>(28,625,866)</b>	(16,774,688)
<b>Net cash provided by financing activities</b>	<b>54,441,628</b>	<b>375,808,227</b>
<b>Net change in cash at banks</b>	<b>6,859,823</b>	<b>24,840,302</b>
Cash at banks at the beginning of the year	<b>44,108,858</b>	19,268,556
<b>Cash at Banks at the End of the year</b>	<b>50,968,681</b>	<b>44,108,858</b>
<b><u>Non cash Items:</u></b>		
Subscription issued against investment properties	<b>196,700,005</b>	291,500,000
Dividends by writing off receivables for unitholders	<b>6,975,000</b>	4,882,500

The accompanying notes from (1) to (22) form an integral part of these financial statements.

**ALKHABEER REIT FUND**  
(Managed by Alkhabeer Capital Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**  
(Expressed in Saudi Riyals)

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## **1. THE FUND AND ITS ACTIVITIES**

Alkhabeer REIR Fund (the "Fund") is a closed-ended Shariah compliant real estate investment traded fund, established in accordance in the rules and regulations enforced in KSA as well as under the guidelines of CMA. The Fund has been established on 16 December 2018 and 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 investment 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 offering period for the subscription of the units was from 11 November 2018 to 29 November 2018. The Fund commenced its activities on 16 December 2018. The Fund was listed on Tadawul on 20 March 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 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 is governed by the Real Estate Investment Funds Regulations (the "Regulations") and REIT instructions published by CMA on 19 Jumada al-Alkhirah 1427H (corresponding to 15 July 2006) thereafter amended on 12 Rajab 1442H (corresponding to 24 February 2021), detailing requirements for all types of funds within the Kingdom of Saudi Arabia.

## **3. BASIS OF PREPARATION**

### **Statement of compliance**

The accompanying 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**  
(Managed by Alkhabeer Capital Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Basis of measurement**

These financial statements of the Fund have been prepared on a historical cost basis except for the items which measured at fair value, present value, net realizable value, and replacement cost in line with the accrual basis of accounting and going concern assumption. The fund does not have an operating cycle that can be clearly defined. Therefore, current and non-current assets and liabilities are not displayed in the statement of financial position, and the values of assets and liabilities are presented according to liquidity and classified as a current.

**Reporting currency**

The accompanying 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 techniques. 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.

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**Changes in accounting policies**

**A) New standards, amendments to standards and interpretations**

The Fund has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2021. The Fund has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.:

**Amendments to IFRS 7 and IFRS 16 interest rate benchmark reform – Phase 2**

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

**Amendment to IFRS 16, ‘Leases’ – COVID-19 related rent concessions**

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the International Accounting Standards Board (“IASB”) published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On March 31, 2021, the IASB published an additional amendment to extend the date of the practical expedient from June 30, 2021 to June 30, 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

The adoption of above amendments does not have any material impact on the Consolidated Financial Statements during the year.

**Standards issued but not yet effective**

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after January 1, 2022 and earlier application is permitted; however, the Fund has not early adopted them in preparing these Consolidated Financial Statements.

**Amendments to IAS 1, ‘Presentation of financial statements’ on classification of liabilities**

These narrow-scope amendments to IAS 1, ‘Presentation of financial statements’, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability.



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**Amendments to IFRS 3, IAS 16, IAS 37**

In January 2020, IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
- IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

**Amendments to IAS 1, Practice statement 2 and IAS 8**

The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

**Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction**

These amendments require companies to recognize deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

**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**

Investment property is property held either to earn rental income or for capital appreciation, or both, but not for sale in the normal course of business or in use in the production, supply of goods, provision of services, or administrative purposes.

Investment properties are measured initially at cost, including transaction costs. Investment properties are subsequently carried at cost, less accumulated depreciation and accumulated impairment losses, if any. This cost includes the cost of replacing parts of investment properties and borrowing costs related to long-term construction projects, if the evidentiary criteria are met. When it is necessary to replace significant parts of investment properties in stages, the Fund recognizes such parts as separate assets with definite useful lives and depreciated accordingly. All repair and maintenance costs are recognized in the consolidated statement of profit or loss when incurred.

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Investment properties are derecognised either when they are disposed of (ie when control is transferred to the receiving entity) or they are permanently withdrawn from use and no future economic benefits are expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of profit or loss in the period in which the derecognition is discontinued. The amount of consideration to be included in the gain or loss on derecognition of investment properties is determined in accordance with the requirements for determining the transaction price in IFRS 15 - Revenue from Contracts with Customers.

Transfers are made to (from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the assumed cost for subsequent accounting is the fair value at the date of change in use.

When owner-occupied properties become investment properties, the Fund accounts for such properties in accordance with the policies applicable to property, plant and equipment up to the date of the change in use.

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

<b>Item</b>	<b>Useful life</b>
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.

To the extent that 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 to which it belongs.

IAS 23, Borrowing cost requires any incremental transaction cost to be amortized using the Effective Interest Rate (EIR). The Company 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.

#### **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.

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**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING**

The Fund uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Interest rate swaps are classified as cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

**Offsetting**

Financial asset and liability is offset and net amounts reported in the financial statements, when the Company 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**

Revenue includes rental income from investment properties.

The Fund records the rent resulting from the lease contracts using the straight-line method. After initiation of the lease, the fund recognizes variable lease payments that are not based on a specific index or rate (payments based on performance or usage, for example) when earned. for rental income.

The contracts include a fixed price, and the customer pays this amount based on the payment schedule. If the services provided by the fund exceed the amount paid, an accrued rental income is proven, but if the payments exceed the provided service, an undue rental income is proven.

Revenue is measured at the transaction price agreed upon under the contract. The disclosed amounts appear as revenue after deducting the variable consideration and payments to customers, which are not for distinct services. This consideration may include discounts, trade allowances, discounts and amounts collected on behalf of third parties.

Receivables are recognized when services are rendered because this is the point in time at which the consideration is unconditional because the passage of time is only necessary before payment is due.

**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

## **ALKHABEER REIT FUND**

(Managed by Alkhabeer Capital Company)

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021**

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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 which is 18 years.

#### **Provisions and Contingent Liabilities**

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.

#### **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 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.

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**Dividend**

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

**Value added tax**

Revenues, expenses and assets are recognized after deducting value added tax (“VAT”) except:

- When the value added tax incurred when purchasing assets or services is not recoverable from the tax authority, in which case the value added tax is recognized as part of the cost of acquiring the asset or as part of the expense item as applicable.
- Receivables and payables mentioned showing the amount of VAT included.

The net amount of VAT that is recoverable from the Authority or payable is included as part of accounts receivable or payable in the statement of financial position.

**Taxation and zakat**

Taxation and zakat are the obligation of the unitholders and therefore, no provision for such liability is made in the financial statements.

**Net equity of the unit**

The net equity of the unit is calculated and disclosed in the financial position by dividing the net assets of the Fund belonging to unit holders 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.

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**Classification and initial recognition**

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

- Those to be measured subsequently at fair value (either through profit or loss, or through other comprehensive income), and
- Those to be 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. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the profit or loss.

**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 other gain / (losses) 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

## **ALKHABEER REIT FUND**

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021**

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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 gains or losses 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 gains / 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 other gains / (losses) in the year in which it arises. Interest income from these financial assets is included as financial benefit in profits or losses.

#### **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.

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**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.

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 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 years.



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**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 year 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.

**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.

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**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.

**4. ACCOUNT RECEIVABLES**

	<b>2021</b>	<b>2020</b>
Accounts receivable	<b>56,981,126</b>	50,193,221
Expected credit losses	<b>(35,000,000)</b>	(14,500,000)
	<b>21,981,126</b>	35,693,221

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

	<b>2021</b>	<b>2020</b>
Balance at the beginning of the year	<b>14,500,000</b>	641,328
Charged for the year	<b>20,500,000</b>	13,858,672
	<b>35,000,000</b>	14,500,000

The Ageing analysis of accounts receivables as follows:

	<b>2021</b>	<b>2020</b>
Up to 90 days	<b>655,293</b>	10,187,894
90 - 180 days	<b>5,863,018</b>	7,067,820
181 - 365 days	<b>6,387,570</b>	14,133,489
More than 365 days	<b>44,075,245</b>	18,804,018
	<b>56,981,126</b>	50,193,221

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**5. PREPAID EXPENSES AND OTHER DEBIT BALANCES**

	<u>2021</u>	<u>2020</u>
Value add tax deposits	8,689,493	6,469,214
Prepaid property manager fees	554,438	-
Prepaid development cost of properties	234,277	487,516
Prepaid expense	331,051	71,587
Other	5,174,822	250,000
	<u>14,984,081</u>	<u>7,278,317</u>

**6. RELATED PARTIES TRANSACTIONS AND BALANCES**

Transactions with related parties represent payments on behalf of a related party, administrative fees, management fees, custody fees and compensation to the fund's independent directors.

a) Due from a related party comprises the following:

<u>Related party</u>	<u>Nature of transaction</u>	<u>Amount of transaction for the year ended December 31</u>		<u>Balance as at December 31</u>	
		<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Awal Al malga Real Estate Company	Expenses paid on behalf	(485)	(734)	18,781	19,266
				<u>18,781</u>	<u>19,266</u>

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 in the name of the company. The fund provided an amount of 20,000 Saudi riyals as the company's capital.

The title deed of real-estate was registered in 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 financial statements.

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b) Due to related parties comprises the following:

Related party	Nature of transaction	Amount of transaction for the year ended December 31		Balance as at December 31	
		2021	2020	2021	2020
Alkhabeer Capital (Fund Manager)	Expenses paid on behalf of the Fund	<b>8,675,025</b>	26,940,469	<b>525,500</b>	525,500
	Management fees	<b>7,709,674</b>	5,633,442	<b>4,482,572</b>	4,673,467
	Administration fees	<b>256,990</b>	187,985	<b>149,419</b>	113,484
Alinma Investment Company	Custody Fees	<b>445,028</b>	319,401	<b>445,028</b>	519,401
Fund Board	Aggregate compensation to Independent Fund Board Members	<b>42,000</b>	42,438	<b>42,000</b>	34,000
				<b>5,644,519</b>	<b>5,865,852</b>

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:

	2021	2020
Balance at the beginning of the year	<b>159,312,565</b>	169,066,397
Additions for development cost	<b>658,327</b>	-
Depreciation during the year	<b>(9,779,789)</b>	(9,753,832)
<b>Net book value</b>	<b>150,191,103</b>	159,312,565

The main assumptions used in determining the fair value of right of use asset are as follows:

Property Name	Property type	Valuation Method	Discount Rate	Fair Value as at December 31, 2021	Fair Value as at December 31, 2020
Gallery Mall	Commercial	Income approach	9.5% - 12%	<b>168,597,000</b>	161,234,500

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b) Lease liability

The movement in lease liability is as follow:

	<u>2021</u>	<u>2020</u>
Balance at the beginning of the year	17,101,709	17,709,224
Paid during the year	(1,579,000)	(1,579,000)
Interest charged during the year	856,796	971,485
<b>Total lease liability at the end of the year</b>	<b>16,379,505</b>	<b>17,101,709</b>

Lease liability is as follows:

	<u>2021</u>	<u>2020</u>
For a year	1,165,321	1,363,610
For more than a year	15,214,184	15,738,099
<b>Total lease liability</b>	<b>16,379,505</b>	<b>17,101,709</b>

The weighted average incremental borrowing rate applied to lease liabilities was 5.01%. Total finance cost on lease liabilities for the year on December 31, 2021 amounted to 856,796 SAR (for the year on December 31, 2020: SAR 971,485).

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

## 8. INVESTMENT PROPERTIES

a) The investments properties owned by the Fund consist of the following:

	<u>2021</u>	<u>2020</u>
Residential and commercial real estate investments	1,523,807,500	817,582,500
Acquisition of investments properties	334,237,500	706,225,000
Development costs	3,612,680	2,837,705
Accumulated depreciation	(59,699,570)	(29,532,043)
Impairment	(106,462,993)	(65,326,972)
	<b>1,695,495,117</b>	<b>1,431,786,190</b>

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

	<u>2021</u>	<u>2020</u>
Balance at the beginning of the year	65,326,972	67,266,071
Impairment / (Reversal of impairment)	41,136,021	(1,939,099)
	<b>106,462,993</b>	<b>65,326,972</b>

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

<u>2021:</u>	Lands*	Residential and commercial properties*	December 31, 2021
<b>Cost:</b>			
Balance at January 1, 2021	455,700,260	1,070,944,945	1,526,645,205
Additions during the year	64,275,282	270,737,193	335,012,475
<b>Balance at December 31, 2021</b>	<b>519,975,542</b>	<b>1,341,682,138</b>	<b>1,861,657,680</b>
<b>Accumulated depreciation:</b>			
Balance at January 1, 2021	-	29,532,043	29,532,043
Charge for the year	-	30,167,527	30,167,527
<b>Balance at December 31, 2021</b>	<b>-</b>	<b>59,699,570</b>	<b>59,699,570</b>
<b>Net book value as of December 31, 2021</b>	<b>519,975,542</b>	<b>1,281,982,568</b>	<b>1,801,958,110</b>
<b>Impairment</b>			<b>(106,462,993)</b>
<b>Balance at December 31, 2021</b>	<b>519,975,542</b>	<b>1,281,982,568</b>	<b>1,695,495,117</b>
<u>2020:</u>	Lands*	Residential and commercial properties	December 31, 2020
<b>Cost:</b>			
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
<b>Balance at December 31, 2020</b>	<b>455,700,260</b>	<b>1,070,944,945</b>	<b>1,526,645,205</b>
<b>Accumulated depreciation:</b>			
Balance at January 1, 2020	-	11,986,835	11,986,835
Charge for the year	-	17,545,208	17,545,208
<b>Balance at December 31, 2020</b>	<b>-</b>	<b>29,532,043</b>	<b>29,532,043</b>
<b>Net book value as of December 31, 2020</b>	<b>455,700,260</b>	<b>1,041,412,902</b>	<b>1,497,113,162</b>
<b>Impairment</b>			<b>(65,326,972)</b>
<b>Balance at December 31, 2020</b>	<b>455,700,260</b>	<b>1,041,412,902</b>	<b>1,431,786,190</b>

\* The Properties and lands are pledged with a local bank under a credit facility agreement except for the Akun warehouses.

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

December 31, 2021		Type	Location	Acquisition and development cost	Accumulated depreciation	Impairment	Net book value	Fair value
<b>B&amp;Q Retail Company (formerly known as Homeworks Center)</b>								
Palazzo Center	Retail	Riyadh	79,950,000	(1,796,250)	(15,559,750)	62,594,000	62,594,000	
Al-Malqa complex	Retail	Riyadh	95,632,500	(3,542,439)	(22,925,061)	69,165,000	69,165,000	
Elite Center	Residential	Riyadh	317,612,680	(19,304,861)	(38,457,819)	259,850,000	259,850,000	
Ahlan Court Center	Multiple	Jeddah	164,000,000	(7,863,569)	(7,516,431)	148,620,000	148,620,000	
Bin 2 Center	Retail	Jeddah	71,750,000	(1,115,680)	(5,769,320)	64,865,000	64,865,000	
Vision Colleges (formerly known as Al-Farabi Colleges)	Multiple	Jeddah	92,250,000	(4,318,360)	(1,716,640)	86,215,000	86,215,000	
The training building for Vision Colleges (formerly known as Al-Farabi Colleges)	Educational	Riyadh	215,250,000	(6,038,600)	-	209,211,400	211,665,000	
Elegance Tower	Educational	Riyadh	66,625,000	(1,332,533)	-	65,292,467	71,160,000	
Vision Colleges - Jeddah	Offices	Riyadh	424,350,000	(11,012,750)	-	413,337,250	466,980,500	
Akun warehouses	Educational	Jeddah	107,500,000	(1,173,865)	(8,326,135)	98,000,000	98,000,000	
	Logistics	Jeddah	226,737,500	(2,200,663)	(6,191,837)	218,345,000	218,345,000	
			<b>1,861,657,680</b>	<b>(59,699,570)</b>	<b>(106,462,993)</b>	<b>1,695,495,117</b>	<b>1,757,459,500</b>	

December 31, 2020

December 31, 2020		Type	Location	Acquisition and development cost	Accumulated depreciation	Impairment	Net book value	Fair value
<b>B&amp;Q Retail Company (formerly known as Homeworks Center)</b>								
Palazzo Center	Retail	Riyadh	79,950,000	(1,197,500)	(37,500)	78,715,000	78,715,000	
Al-Malqa complex	Retail	Riyadh	95,632,500	(2,361,625)	(8,965,875)	84,305,000	84,305,000	
Elite Center	Residential	Riyadh	316,837,705	(12,638,518)	(48,104,187)	256,095,000	256,095,000	
Ahlan Court Center	Multiple	Jeddah	164,000,000	(5,167,489)	-	158,832,511	161,880,000	
Bin 2 Center	Retail	Jeddah	71,750,000	(733,161)	(4,416,839)	66,600,000	66,600,000	
Vision Colleges (formerly known as Al-Farabi Colleges)	Multiple	Jeddah	92,250,000	(2,837,779)	(1,727,221)	87,685,000	87,685,000	
The training building for 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	
Elegance Tower	Educational	Riyadh	66,625,000	(333,133)	-	66,291,867	69,740,000	
	Offices	Riyadh	424,350,000	(2,753,188)	-	421,596,812	453,825,000	
			<b>1,526,645,205</b>	<b>(29,532,043)</b>	<b>(65,326,972)</b>	<b>1,431,786,190</b>	<b>1,470,510,000</b>	

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The following are the main assumptions used in determining the fair value of investment properties as at December 31, 2021:

<b>Property Name</b>	<b>Valuation Method</b>	<b>Discount Rate</b>
B&Q Retail Company (formerly known as Homeworks Center)	Income approach	9.5% - 8%
Palazzo Center	Income approach	11.25% - 8.5%
Al-Malqa complex	Income approach	7.25% - 10%
Elite Center	Income approach	7.5% - 8.5%
Ahlan Court Center	Income approach	11.25% - 9.5%
Bin 2 Center	Income approach	11.25% - 11%
Vision Colleges (formerly known as Al-Farabi Colleges)	Income approach	10.5% - 8.5%
The training building for Vision Colleges (formerly known as AlFarabi Colleges)	Income approach	10.75% - 8.25%
Elegance Tower	Income approach	7.5% - 8.5%
Vision Colleges - Jeddah	Income approach	7.5% - 9%
Akun warehouses	Income and Cost approach	11% - 10%

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

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

In accordance with article 35 of the Real Estate Investment Funds Regulations issued by the Capital Market Authority (CMA), Saudi Arabia, the Fund manager estimates the fair value of the funds real estates based on two valuations prepared by independent values. However, in accordance with IFRS, investments in real estate's 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:

	<b>2021</b>	<b>2020</b>
Cost of investment properties and right of use asset	<b>2,040,323,415</b>	1,704,652,613
Accumulated depreciation	<b>(88,174,202)</b>	(48,226,886)
Impairment	<b>(26,092,713)</b>	(24,681,227)
<b>Fair value of investment properties and right of use asset</b>	<b>1,926,056,500</b>	1,631,744,500



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

	<u>2021</u>	<u>2020</u>
Equity attributable to unitholders	1,096,825,756	856,154,223
Unrealized gains arising from revaluation	80,370,280	40,645,745
<b>Net asset at fair value</b>	<b>1,177,196,036</b>	<b>896,799,968</b>

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

	<u>2021</u>	<u>2020</u>
Equity per unit	7.7784	8.3145
Unrealized gains arising from revaluation	0.5700	0.3947
<b>Net equity per unit, at fair value</b>	<b>8.3484</b>	<b>8.7092</b>

#### 9. CREDIT FACILITIES

The Fund has a credit facility agreement with a local bank to obtain a bank financing amounted to 745.9 million Saudi riyals as of December 31, 2021 (as of December 31, 2020: 746 million Saudi riyals). 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 domestic interbank lending market (SAIBOR rate of six months + 2.25% - 2.50% annually) payable at the end of the loan term

#### 10. ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>2021</u>	<u>2020</u>
Unearned rent income	49,806,024	34,912,983
Refundable deposit	16,098,018	16,098,018
Accrued properties management fees	1,105,000	480,473
Accrued finance charges	548,581	572,769
Professional and consultations fees	424,000	175,650
Refundable insurance	343,700	247,950
Retention payable	267,732	267,732
Other credit balances	274,060	268,020
	<b>68,867,115</b>	<b>53,023,595</b>

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**11. OTHER EXPENSES**

	<b>FOR THE YEAR ENDED</b>	
	<b>DECEMBER 31</b>	
	<b>2021</b>	2020
Utilities Expenses	<b>1,538,295</b>	54,060
Consulting and legal fees	<b>724,350</b>	1,058,998
Initial registration and listing fees – annual	<b>694,586</b>	641,866
Real estate valuation fees	<b>480,975</b>	260,275
Additional offering expenses*	<b>118,279</b>	15,640,305
Other expenses	<b>955,315</b>	593,691
	<b>4,511,800</b>	18,249,195

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

**12. 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 200,000 Saudi riyals per year with a one-time fee of 50,000 Saudi riyals 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.

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**e) CAPITAL RESTRUCTURING FEES**

The Fund manager is entitled to obtain a capital restructuring fees by amount of 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.

**13. 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.

**14. DIVIDENDS**

The Fund's board of directors agreed to distribute dividends for the year ended December 31, 2021 and for the year ended December 31, 2020. The details of these distributions are as follows:

<b>Approval Date</b>	<b>Amount per Unit</b>	<b>Total</b>
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
<b>January 31, 2021</b>	<b>0.125</b>	<b>12,871,376.63</b>
<b>April 29, 2021</b>	<b>0.125</b>	<b>12,871,376.63</b>
<b>July 29, 2021</b>	<b>0.125</b>	<b>17,626,106.00</b>
<b>October 31, 2021</b>	<b>0.125</b>	<b>17,626,106.00</b>

On January 28, 2020, the Fund Board of Directors approved the payment of dividends for the period from October 1, 2019 to December 31, 2019, at an 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 Board of Directors approved the payment of dividends for the period from January 1, 2020 to June 30, 2020, at an amount of 0.20 Saudi riyals per unit and a total of 13.29 million Saudi riyals to unit holders. The dividend was paid during the year ended December 31, 2020.

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

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.

On July 29, 2021, the Fund Board of Directors approved the payment of dividends for the period from April 1, 2021 to June 30, 2021, at an amount of 0.125 Saudi riyals per unit and a total of 17.626 million Saudi riyals to unit holders. The dividend was paid during the year ended December 31, 2021.

On October 31, 2021, the Fund Board of Directors approved the payment of dividends for the period from July 1, 2021 to September 30, 2021, at an amount of 0.125 Saudi riyals per unit and a total of 17.626 million Saudi riyals to unit holders. The dividend was paid during the year ended December 31, 2021.

## **15. 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.

On July 27, 2021 that it has entered with Al-Rajhi Bank into a Profit Rate Swap Hedging Agreement to fix the profit margin of the facilities used in the first additional offering for the amount of SAR 397.5 million at a fixed rate of 4.44%. The purpose of the hedging facility is to protect the Fund from rate fluctuations during the remaining tenor of this facility, starting from September 1, 2021 until September 7, 2025.

## **16. LAST VALUATION DATE**

The last date for valuation during the year is December 31, 2021.

## **17. 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.

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**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, and the fund has entered with Al-Rajhi Bank into a Profit Rate Swap Hedging Agreement to fix the profit margin of the facilities used in the first additional offering for the amount of SAR 397.5 million at a fixed rate of 4.44%. The purpose of the hedging facility is to protect the Fund from rate fluctuations during the remaining tenor of this facility, starting from September 1, 2021 until September 7, 2025.(Note 15).

**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.

**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 are available to meet any future commitments.

<u>As at December 31,2021</u>	<u>Book Value</u>	<u>Less than a year</u>	<u>More than a year</u>
<b><u>Non-derivative financial liabilities</u></b>			
Credit facilities	745,921,994	8,421,994	737,500,000
Due to related parties	5,644,519	5,119,019	525,500
Lease Liabilities	16,379,505	1,165,321	15,214,184
Accrued expenses and other liabilities	68,867,115	52,769,097	16,098,018
	<b>836,813,133</b>	<b>67,475,431</b>	<b>769,337,702</b>
<u>As at December 31,2020</u>	<u>Book Value</u>	<u>Less than a year</u>	<u>More than a year</u>
<b><u>Non-derivative financial liabilities</u></b>			
Credit facilities	746,053,038	8,553,038	737,500,000
Due to related parties	5,865,852	5,865,852	-
Lease Liabilities	17,101,709	1,363,610	15,738,099
Accrued expenses and other liabilities	53,023,595	36,925,577	16,098,018
	<b>822,044,194</b>	<b>52,708,077</b>	<b>769,336,117</b>

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**18. 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)	
<b>December 31, 2021</b>						
<b><u>Financial Assets</u></b>						
Cash at Banks	50,968,681	-	-	-	-	50,968,681
Account Receivables	21,981,126	-	-	-	-	21,981,126
Prepaid expenses and other debit balances	14,984,081	-	-	-	-	14,984,081
Due from a related party	18,781	-	-	-	-	18,781
	<b>87,952,669</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>87,952,669</b>
<b><u>Financial Liabilities</u></b>						
Credit facilities	745,921,994	-	-	-	-	745,921,994
Due to related parties	5,644,519	-	-	-	-	5,644,519
Lease Liability	16,379,505	-	-	-	-	16,379,505
Accrued expenses and other liabilities	68,867,115	-	-	-	-	68,867,115
	<b>836,813,133</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>836,813,133</b>
<b>December 31, 2020</b>						
<b><u>Financial Assets</u></b>						
Cash at Banks	44,108,858	-	-	-	-	44,108,858
Account Receivables	35,693,221	-	-	-	-	35,693,221
Prepaid expenses and other debit balances	7,278,317	-	-	-	-	7,278,317
Due from a related party	19,266	-	-	-	-	19,266
	<b>87,099,662</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>87,099,662</b>
<b><u>Financial Liabilities</u></b>						
Credit facilities	746,053,038	-	-	-	-	746,053,038
Due to related parties	5,865,852	-	-	-	-	5,865,852
Lease Liability	17,101,709	-	-	-	-	17,101,709
Accrued expenses and other liabilities	53,023,595	-	-	-	-	53,023,595
	<b>822,044,194</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>822,044,194</b>

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**19. 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.

**20. IMPACT OF COVID-19**

The existence of novel coronavirus (COVID-19) was confirmed in early 2020 and has spread across multiple geographies, causing disruptions to businesses and economic activity. In response to the spread of COVID-19 and its resulting disruptions to the social and economic activities, the Fund's management has assigned a task force to assess and monitor the possible impact on its business in Saudi Arabia and other geographies where Fund operates. The management has also taken a series of preventive measures to ensure the health and safety of its employees, customers and wider community as well as to ensure the continuity of its operations. Since the fund achieved positive results during the 2021 pandemic period, and consequently management believes that COVID-19 had no material impact on the reported financial position and results for the year ended December 31, 2021.

Currently, many countries, including countries where the Fund is operating, are constantly addressing the continued increase in recorded cases of COVID-19 and the implications to the economy. COVID-19 is an evolving situation, the Fund is monitoring closely any material impacts to the operations and continuity of business activities. The priority of the Fund remains to protect the health, safety and welfare of employees, customers, and partners, as well as support the Government and its agencies as they work to reduce the impact of the outbreak.

At this stage, the Fund is unable to reliably estimate the future impact of COVID-19, given the lack of certainty on possible end date of the pandemic or vaccination of large part of community that could continue impacting the world economies. Management believes that COVID-19 had no material impact on the financial statement for the year ended 2021. Further, management is monitoring and keeping an eye on the situation through their task force.

**21. SUBSEQUENT EVENTS**

On January 31, 2022, the Fund Board of Directors approved the distribution of dividends for the period from October 1, 2021 to December 31, 2021, at an amount of SR 0.125 per unit and a total of SR 17.63 million to unit holders.

**22. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements have been approved by the Funds Board of Directors on 24 Sha'aban 1443H (Corresponding 27 March 2022).

ALKHABEER CAPITAL  
Tel.: +966 920010707  
[www.alkhabeer.com](http://www.alkhabeer.com)

CMA license 07074-37  
CR 4030177445

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