

ALINMA HOSPITALITY REIT FUND
(Managed by Alinma Investment Company)

FINANCIAL STATEMENTS FOR THE PERIOD
FROM 30 JANUARY 2023 TO 31 DECEMBER 2023

AND INDEPENDENT AUDITOR'S REPORT

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

FINANCIAL STATEMENTS

For the period from 30 January 2023 to 31 December 2023

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**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALINMA HOSPITALITY REIT FUND
(Managed by Alinma Investment Company)**

Opinion

We have audited the accompanying financial statements of Alinma Hospitality REIT Fund (the "Fund") managed by Alinma Investment Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2023, and the related statements of comprehensive income, cash flows and changes in equity for the period from 30 January 2023 to 31 December 2023, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Fund as at 31 December 2023, and its financial performance and its cash flows for the period from 30 January 2023 to 31 December 2023 in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) ("the Code"), that is endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Fund's financial statements and we have fulfilled our ethical responsibilities in accordance with that Code. 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 period. 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALINMA HOSPITALITY REIT FUND
(Managed by Alinma Investment Company) (continued)**

Key Audit Matters (continued)

Key Audit Matter	How the key matter was addressed in the audit
<p><u>Assessing Impairment of investment properties</u></p> <p>The Fund owns a portfolio of investment properties comprising of hotels located in the Kingdom of Saudi Arabia.</p> <p>Investment properties are held for capital appreciation and/or rental yields and are stated at cost less accumulated depreciation and any impairment losses.</p> <p>As at 31 December 2023, the carrying value of investment properties was SR 998 million which was net of accumulated depreciation of SR 19 million.</p> <p>For assessing the impairment of investment properties, the Fund Manager monitors volatility of fair value of properties by engaging independent certified property valuers to perform a formal valuation of the Fund's investment properties on semi-annual basis.</p> <p>We considered this as a key audit matter since the impairment assessment of investment properties requires significant judgement and estimates by the Fund Manager and the external valuers. Any input inaccuracies or unreasonable bases used in these judgements and estimates (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the Statement of Financial Position and in the Statement of Comprehensive Income.</p> <p><i>The Fund's accounting policy for investment properties is disclosed in note 3.5, the significant accounting estimates, judgement and assumptions relating to investment properties are disclosed in note 4, related disclosures about investment properties are included in notes 5 and 6 of the accompanying financial statements.</i></p>	<ul style="list-style-type: none"> - We have obtained an understanding of the process and controls surrounding assessment of impairment of investment properties by performing walkthrough procedures. - We agreed the value of all the properties held at the period end to the valuation included in the independent management expert valuation report; - We evaluated the competency, capabilities and objectivity of work performed by the independent management expert; - On sample basis, with the help of our independent expert, we performed the following: <ul style="list-style-type: none"> o We assessed the appropriateness of valuation methods, assumptions, and estimates used by management in the process assessment of impairment of investment properties; o We engaged in discussions with management and assessed the relevant assumptions used based on market data where possible; o We tested the appropriateness of the key assumptions used in the valuation of investment properties, such as estimated rental value and yield profile applied; - We ensured that the financial statements contain adequate disclosures regarding the valuation methods, judgment, assumptions and estimates used in the valuation

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALINMA HOSPITALITY REIT FUND
(Managed by Alinma Investment Company) (continued)**

Other Information included in the Fund's 2023 Annual Report

Fund Manager is responsible for the other information. The other information comprises the information included in the Fund's 2023 annual report other than the financial statements and our auditor's report thereon. The Fund's 2023 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 do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Fund's 2023 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Fund Manager and Those Charged with Governance for the Financial Statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by SOCPA and the applicable provisions of the Investment Funds Regulations issued by the Board of Capital Market Authority, and the Fund's terms and conditions and the information memorandum, and for such internal control as the Fund Manager determines 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, the Fund 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 the Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Fund's financial reporting process.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALINMA HOSPITALITY REIT FUND
(Managed by Alinma Investment Company) (continued)**

Auditor's Responsibilities for the Audit of the Financial Statements

As part of an audit in accordance with ISAs 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 the Fund Manager.
- Conclude on the appropriateness of the Fund 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 auditor's 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 auditor's report. However, future events or conditions may cause the Fund 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.

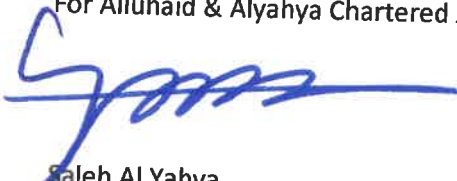
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALINMA HOSPITALITY REIT FUND
(Managed by Alinma Investment Company) (continued)**

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 of 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.

For Alluhaid & Alyahya Chartered Accountants



Saleh Al Yahya
Certified Public Accountant
Registration No. 473

Riyadh: 18 Ramadan 1445H
(28 March 2024)



Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	<i>Notes</i>	<i>SR</i>
ASSETS		
NON-CURRENT ASSETS		
Investment properties	5	998,337,345
TOTAL NON-CURRENT ASSETS		<u>998,337,345</u>
CURRENT ASSETS		
Rental income receivable		153,849
Financial assets at fair value through profit or loss ("FVTPL")	7	42,284,397
Bank balance		16,348,637
TOTAL CURRENT ASSETS		<u>58,786,883</u>
TOTAL ASSETS		<u>1,057,124,228</u>
LIABILITIES AND EQUITY		
LIABILITIES		
Accrued expenses and other current liabilities	10	4,791,682
Unearned rental income	9	4,502,384
TOTAL LIABILITIES		<u>9,294,066</u>
EQUITY		
Net assets attributable to unitholders		1,047,830,162
TOTAL LIABILITIES AND EQUITY		<u>1,057,124,228</u>
Redeemable units in issue (numbers)		<u>102,002,100</u>
Net assets value attributable to unitholders (SR)		<u>10.27</u>

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

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

STATEMENT OF COMPREHENSIVE INCOME
For the period from 30 January 2023 to 31 December 2023

	<i>Notes</i>	2023 SR
INCOME		
Revenue from investment properties	11	89,454,022
Gain from financial assets at FVTPL		1,284,396
TOTAL INCOME		90,738,418
OPERATING EXPENSES		
Depreciation on investment properties	5	(19,690,155)
Management fees	8	(6,996,281)
Fund establishment costs	12	(2,159,505)
General and administrative expenses	13	(1,442,643)
TOTAL OPERATING EXPENSES		(30,288,584)
NET PROFIT FOR THE PERIOD		60,449,834
Other comprehensive income		-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		60,449,834

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

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

STATEMENT OF CASH FLOWS

For the period from 30 January 2023 to 31 December 2023

	<i>Notes</i>	<i>SR</i>
OPERATING ACTIVITIES		
Net profit for the period		60,449,834
<i>Adjustments for:</i>		
Gain from financial assets at FVTPL		(1,284,396)
Depreciation on investment properties	5	19,690,155
		<u>78,855,593</u>
<i>Changes in working capital:</i>		
Rental income receivable		(153,849)
Accrued expenses and other current liabilities		4,791,682
Unearned rental income		4,502,384
		<u>87,995,810</u>
Net cash flows from operating activities		
INVESTING ACTIVITIES		
Purchase of investment properties	5	(509,407,500)
Purchase of financial assets at FVTPL		(58,500,000)
Proceeds from disposal of financial asset at FVTPL		17,499,999
		<u>(550,407,501)</u>
Net cash flows used in investing activities		
FINANCING ACTIVITIES		
Dividends paid	17	(32,640,672)
Proceeds from issuance of units		511,401,000
		<u>478,760,328</u>
Net cash flows from financing activities		
BANK BALANCE AT END OF THE PERIOD		<u><u>16,348,637</u></u>
NON-CASH TRANSACTIONS		
Purchase of investment properties against units	5	508,620,000

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

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

STATEMENT OF CHANGES IN EQUITY

For the period from 30 January 2023 to 31 December 2023

	<i>SR</i>
Comprehensive Income:	
Net profit for the period	60,449,834
Other comprehensive income for the period	-
Total comprehensive income for the period	60,449,834
Dividends (note 17)	(32,640,672)
	<u>27,809,162</u>
CHANGE FROM UNIT TRANSACTIONS	
Contributions against issuance of units (note 5)	1,020,021,000
EQUITY AT THE END OF THE PERIOD	<u>1,047,830,162</u>
REDEEMABLE UNITS TRANSACTIONS	
Transactions in redeemable units for the period are summarised as follows:	
	<i>2023</i>
	<i>Units</i>
Units issued during the period	102,002,100
UNITS AT THE END OF THE PERIOD	<u>102,002,100</u>

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

Alinma Hospitality REIT Fund (Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

1 INCORPORATION AND ACTIVITIES

Alinma Hospitality REIT Fund (the "Fund") is a publicly traded closed-ended fund created by agreement between Alinma Investment Company, a subsidiary of Alinma Bank (the "Bank") and investors (the "unitholders"), in accordance with the shariah rules issued by the Shariah Board of the Fund Manager.

The Fund's objective aims to generate sustainable and growing cash dividend for the unitholders and develop the Fund assets via direct investment in income generating and constructed developed real estate properties. The Fund intends to invest heavily on the hotel sector, hospitality, and tourist accommodation. The Fund may invest partly in real estate development projects, provided that the Fund's assets invested in income-generating assets are not less than (75%).

The Capital Market Authority ("CMA") granted approval for the establishment of the Fund on 23 Rabi' al-Awwal 1444H (corresponding to 19 October 2022). On 22 Rabi Al-Akhir 1444H (Corresponding to 16 November 2022) the Fund completed its unit offering, and the units of the Fund were listed on the Saudi stock exchange ("Tadawul") on 8 Rajab 1444H (corresponding to 30 January 2023) and the Fund commenced its formal operations. Accordingly, the first financial period for the Fund is from 30 January 2023 to 31 December 2023. These are the first financial statements of the Fund prepared for the period from 30 January 2023 to 31 December 2023.

As per terms and conditions of the Fund, the initial term of the Fund is 99 years which is extendable on the discretion of the Fund Manager for a similar term with the approval of unitholders, the Fund's Board and the Capital Market Authority ("CMA")

The Fund is managed by Alinma Investment Company (the "Fund Manager"), a closed joint stock company with commercial registration number 1010269764, licensed by the Capital Market Authority of the Kingdom of Saudi Arabia ("CMA") under license number 09134-37.

Real Estate Hotel Development Company, a limited liability company with commercial registration number 1010734462, has been established and approved by CMA as a special purpose vehicle ("SPV") for the beneficial interests of the Fund. The SPV owns all the properties of the Fund and is liable for its contractual liabilities.

The Fund has appointed NOMW capital (the "Custodian") to act as its custodian. The fees of the custodian are paid by the Fund.

2 REGULATING AUTHORITY

The Fund operates in accordance with Real Estate Investment Fund Regulations ("REIFR") and Real Estate Investments Traded Funds ("REITF") instructions issued by CMA detailing detail the requirements for real estate funds and traded real estate funds within the Kingdom of Saudi Arabia.

3 MATERIAL ACCOUNTING POLICIES INFORMATION

3.1 Basis of preparation

These financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement that are endorsed by the Saudi Organisation for Chartered and Professional Accountants, (collectively hereafter referred to as IFRS as endorsed in the Kingdom of Saudi Arabia).

The financial statements have been prepared under the historical cost convention using the accrual basis of accounting except for financial assets held at FVTPL which are measured at fair value.

The Fund Manager has prepared the financial statements on the basis that it will continue to operate as a going concern.

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires the Fund Manager to exercise its judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2023

3 MATERIAL ACCOUNTING POLICIES INFORMATION (continued)

3.2 *Standards issued but not yet effective*

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

<u>Standards / amendments to standards / interpretations</u>	<u>Effective date</u>
<i>Classification of Liabilities as Current or Noncurrent and Non-current Liabilities with Covenants - Amendments to IAS 1</i>	1 January 2024
<i>Lease Liability in a Sale and Leaseback - Amendments to IFRS 16</i>	1 January 2024
<i>Disclosures: Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7</i>	1 January 2024
<i>Lack of exchangeability - Amendments to IAS 21</i>	1 January 2025

3.3 *Cash and cash equivalents.*

Cash and cash equivalents include cash with a bank and other short-term highly liquid investments, if any, with maturities of three months or less from the purchase date.

3.4 *Investment property*

Investment property comprise completed freehold properties that are held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of operations, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation and impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self - constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in statement of profit or loss.

Fair value of investment property is determined by using evaluations prepared by independent valuers.

3.5 *Impairment of non-financial assets*

The Fund assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Fund estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2023

3 MATERIAL ACCOUNTING POLICIES INFORMATION (continued)

3.6 Impairment of non-financial assets (continued)

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Fund estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of other comprehensive income.

3.6 Financial Instruments - Initial recognition and subsequent measurement

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

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Fund's business model for managing them. In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding.

This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model. The Fund's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in the following categories:

- Financial assets at amortised cost
- Financial assets measured at fair value through other comprehensive ("FVTOCI")
- Financial assets measured at fair value through profit or loss ("FVTPL")

Financial assets measured at amortised cost

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Fund's financial assets at amortised cost includes cash and cash equivalents.

Financial assets measured at fair value through other comprehensive ("FVTOCI")

Financial assets in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTOCI upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding;
- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; and
- (c) The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2023

3 MATERIAL ACCOUNTING POLICIES INFORMATION (continued)

3.7 Financial Instruments - Initial recognition and subsequent measurement (continued)

i) Financial assets (continued)

Financial assets measured at fair value through profit or loss ("FVTPL")

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes listed equity investments which the Fund had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are recognised in the statement of profit or loss when the right of payment has been established.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Fund's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of the Fund's continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

Impairment

The Fund considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1');
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2'); and
- 'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date. However, none of the Fund's financial assets fall into this category.

12-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses are recognized for the second and third category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

For financial assets at amortised cost, the Fund applies the low credit risk simplification. At every reporting date, the Fund evaluates whether the financial asset at amortised cost is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Fund reassesses the internal credit rating of the financial assets at amortised cost. In addition, the Fund considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

3 MATERIAL ACCOUNTING POLICIES INFORMATION (continued)

3.7 Financial Instruments - Initial recognition and subsequent measurement (continued)

ii) Financial liabilities

Initial recognition and measurement

The Fund's financial liabilities include, management and administration fees payable and other liabilities. All financial liabilities are recognised initially at fair value.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified at amortised cost:

Financial liabilities at amortised cost

This category includes all financial liabilities, other than those measured at fair value through profit or loss. This is the category most relevant to the Fund. After initial recognition, financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

3.7 Fair value measurement

The Fund measures financial instruments such as investment in mutual funds units at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2023

3 MATERIAL ACCOUNTING POLICIES INFORMATION (continued)

3.8 Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in financial statements at fair value on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each year. The Fund determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

At each reporting date, the Fund analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund's accounting policies. For this analysis, the Fund verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Fund also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed are discussed in note 13.

3.9 Net assets value per unit

The net assets value per unit disclosed in the statement of financial position is calculated by dividing the net assets value of the Fund by the number of units in issue at the period end.

3.10 Management fees, custodian fees and other expenses

Management fees, custodian fees and other expenses are charged at rates / amounts within limits mentioned in terms and conditions of the Fund.

3.11 Zakat and income tax

Fund is not liable to pay any zakat or income tax which are considered to be the obligation of the unitholders and are as such not provided in the accompanying financial statements.

3.12 Revenue recognition

Rental income from lease of investment properties

The funds revenue mainly comprises earned from leasing out hotels classified as investment properties. Rental income arising from operating lease on investment properties is recognised, net of discount, in accordance with the terms of leases over the lease term on a straight-line basis, except where an alternative basis is more representative of the pattern of benefits to be derived from the lease asset.

3.13 Distributions

The Fund has a policy of distributing dividends, as per the terms and conditions, at least twice a year, at not less than 90% percent of the Fund's net profit.

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2023

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Fund's financial statements in conformity with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may differ from the related actual results.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Going concern

The Board of Directors, in conjunction with the Fund Manager, has made an assessment of the Fund's ability to continue as going concern and satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as going concern. Therefore, the financial statements Continued to be prepared on the going concern basis

Useful lives of investment properties

The management determines the estimated useful lives of investment properties for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods. The estimated useful lives of the investment properties are disclosed in note 6.1.

Impairment of investment properties

The carrying values of non-financial assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset or cash generating unit ("CGU") exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. The value in use is based on a discounted cash flow ("DCF") model, whereby the future expected cash flows are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and risks specific to the asset. Impairment losses are recognised in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 recognised for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately in the statement of comprehensive income.

Impairment of financial assets held at amortised cost

The Fund recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

As at the year end, the Fund has rents receivable and amounts due from a related party as financial assets carried at amortised cost. For rental income receivables and contract assets, the Fund applies a simplified approach in calculating ECLs. Therefore, the Fund does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Fund has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The information about the ECLs on the Fund's rental income receivables is disclosed in note 9 in these financial statements.

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2023

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Leases - Estimating the incremental borrowing rate

The Fund cannot readily determine the interest rate implicit in leases where it is the lessee, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Fund would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Fund 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Fund estimates the IBR using observable inputs such as market interest rates, as and when available.

Determining the lease term

The Fund as a lessee determines the lease term as the non-cancellable period of a lease, together with both:
(a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and;
(b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.
For contracts that include extension and termination options, the Fund uses judgement in evaluating whether it is reasonably certain whether to exercise the option to renew or terminate the lease. In doing so, it considers all relevant factors that create an economic incentive for it to exercise the renewal or termination. Those factors include current and expected retail unit performance, availability, cost and other terms of substitutes, magnitude of leasehold improvements, length of extension or renewal, and cost of extension or renewal. Following the commencement date, the Fund reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the Fund and affects its assessment on whether or not to exercise an option previously included in its determination of the lease term.

Fair value measurement

The Fund measures its investments in equity instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For all other financial instruments not traded in an active market, if any, the fair value is determined using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions, adjusted as necessary, and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

5 INVESTMENT PROPERTIES

5.1 The composition of the investment properties as of the reporting date is summarized below:

<i>Description</i>	<i>Cost SR</i>	<i>Accumulated depreciation SR</i>	<i>Net book value SR</i>
Vittori Palace Hotel	451,500,000	8,379,741	443,120,259
Rafal Ascott Hotel	257,250,000	5,611,594	251,638,406
Clarion Hotel Jeddah Airport	158,670,000	3,140,241	155,529,759
Comfort inn and Suites Hotel	85,355,000	1,475,678	83,879,322
Comfort inn Olaya	65,252,500	1,082,901	64,169,599
	<u>1,018,027,500</u>	<u>19,690,155</u>	<u>998,337,345</u>

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2023

5 INVESTMENT PROPERTIES (continued)

5.2 Listed below are the details of the investment properties:

<i>PROPERTY</i>	<i>DISCRIPTION</i>
Vittori Palace Hotel	This property is a fully constructed commercial facility on a freehold land, located in Khuzam Street – King Abdullah District, Riyadh, Kingdom of Saudi Arabia. The property has been leased out for the term of 5 years. The hotel is leased out to a third party at net lease amount of SR 33 million.
Rafal Ascott Hotel	This property is a fully constructed commercial facility on a freehold land, located in Olaya Street – Al-Sahafa District, Riyadh, Kingdom of Saudi Arabia. The SPV of the Fund, on behalf of the Fund, has entered into an operational agreement of 5 years with Al-Maskan Al-Hadri Real Estate Development Company, for operating and managing the hotel operations in the property. The Fund will be generating a fixed net lease amount of SR 18.8 million from this arrangement each year. The Fund has signed the contract effective before formally commencing its operations. During the period ended 31 December 2023, the Fund has recognized rental income of SR 34 million out of which SR 16 million were related to the period before the formal commencement date.
Clarion Hotel Jeddah Airport	This property is a fully constructed commercial facility on a freehold land, located in Prince Majed Street – Nozha District, Jeddah, Kingdom of Saudi Arabia. The property has been leased out for the term of 5 years. The hotel is leased out to a third party at net lease amount of SR 11.5 million.
Comfort inn and Suites Hotel	This property is a fully constructed commercial facility on a freehold land, located in King Abdulaziz Road – Al Zahra District, Jeddah, Kingdom of Saudi Arabia. The SPV of the Fund, on behalf of the Fund, has entered into an operational agreement of 5 years with Seera Hospitality Company, for operating and managing the hotel operations in the property. The Fund will be generating a fixed net lease amount of SR 6.2 million from this arrangement each year.
Comfort inn Olaya	This property is a fully constructed commercial facility on a freehold land, located in Wadi Al-Awsat Street – Olaya District, Riyadh, Kingdom of Saudi Arabia. The property has been leased out for the term of 5 years. The hotel is leased out to a third party at net lease amount of SR 4.7 million.

5.3 The movement in the investment properties during the period is as follows:

	<i>Lands</i> SR	<i>Buildings</i> SR	<i>Total</i> SR
<i>Cost</i>			
Additions during the period	254,910,061	763,117,439	1,018,027,500
At the end of the period	<u>254,910,061</u>	<u>763,117,439</u>	<u>1,018,027,500</u>
<i>Accumulated depreciation</i>			
Depreciation charge for the period	-	(19,690,155)	(19,690,155)
At the end of the period	<u>-</u>	<u>(19,690,155)</u>	<u>(19,690,155)</u>
<i>Net book amount as at 31 December 2023</i>	<u>254,910,061</u>	<u>743,427,284</u>	<u>998,337,345</u>

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2023

5 INVESTMENT PROPERTIES (continued)

Acquisition of Comfort-inn Olaya, comfort inn suites, clarion hotel Jeddah airport and vitori palace hotels is partially funded through units issued amounting to SR 508.6 million, equivalent to 50.86 million units and the remaining amount of SR 509.4 million equivalent to 50.94 million units is funded through cash. The title deed of the investment properties are registered in the name of the SPV.

6 EFFECTS ON NET ASSETS VALUE (EQUITY) IF INVESTMENT PROPERTY ARE FAIR VALUED

In accordance with Article 36 of the REIFR issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the fair value of the Fund's real estate assets based on two evaluations prepared by independent evaluators. However, investment properties are carried at cost less depreciation and impairment, if any, in these financial statements.

The fair value of the investment properties is determined by two selected appraisers for each property, i.e., Abaad Real Estate Valuation Company and Esnad Real Estate Valuation Company.

As at 31 December 2023, the valuation of investment properties are as follows:

	Appraiser 1 (SR)	Appraiser 2 (SR)	Average (SR)
Vittori Palace Hotel	462,590,000	443,045,000	453,402,500
Rafal Ascott Hotel	268,230,000	266,417,000	267,266,500
Clarion Hotel Jeddah Airport	165,620,000	161,845,000	161,307,500
Comfort inn and Suites Hotel	88,800,000	89,096,000	89,088,000
Comfort inn Olaya	71,080,000	68,068,000	67,964,000
	<u>1,056,320,000</u>	<u>1,028,471,000</u>	<u>1,042,395,500</u>

Management has used the average of the two valuations for the purposes of disclosing the fair value of the investment properties.

The investment properties were valued taking into consideration number of factors, including the area and type of the property. Below is an analysis of the investment property's fair value against cost:

i The unrealised gain on investment properties based on the fair value evaluation is set out below:

	<i>As at</i> <i>31 December 2023</i> SR
Average fair value of investment properties	1,042,395,500
Less: Carrying value of investment properties (note 5.1)	(998,337,345)
Unrealised gain based on fair value	<u>44,058,155</u>
Units in issue (numbers)	<u>102,002,100</u>
Impact per unit based on fair value (SR)	<u>0.43</u>

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2023

6 EFFECTS ON NET ASSETS VALUE (EQUITY) IF INVESTMENT PROPERTIES ARE FAIR VALUED (continued)

ii. The net asset value using the fair values of the investment property is set out below:

	<i>As at</i> <i>31 December 2023</i> SR
Net assets value (equity) at cost	1,047,830,162
Unrealised gain based on fair value	44,058,155
Net assets value (equity) based on fair value	<u>1,091,888,317</u>

iii. The net asset value per unit, using fair values of the investment properties is set out below:

	<i>31 December 2023</i> SR
Net assets value per unit at cost	10.27
Impact on net assets value per unit on account of unrealized gain based on the fair value	0.43
Net assets value per unit based on fair value	<u>10.70</u>

7 FINANCIAL ASSETS AT FVTPL

Financial assets at FVTPL represents investment in Alinma Saudi Riyal Liquidity Fund, an open-ended fund managed by Alinma Investment Company. The primary objective of the Fund is to invest in Shariah compliant Murabaha contracts.

	<i>As at</i> <i>31 December 2023</i>	
	Cost (SR)	Market value (SR)
Alinma Saudi Riyal Liquidity Fund	<u>41,198,722</u>	<u>42,284,397</u>

8 RELATED PARTY TRANSACTIONS AND BALANCES

In ordinary course of activities, the Fund transacts business with related parties. The related party transactions are governed by limit set by the terms and conditions. All related party transactions are disclosed to the Fund Board of or Directors.

Related parties of the Fund include the Fund Manager, the Bank, entities related to the Bank and the Fund Manager and any party that has the ability to control other party or exercise considerable influence over the party in making financial or operational decisions.

a) Management fees

In consideration for managing the assets of the Fund, in accordance with the terms and conditions, the Fund pays a management fee to the Fund Manager equal to 9% of the net operational income in condition that it does not exceed 0.80% of the Fund's total assets. If the result of the operation is loss, the Fund Manager will not take any management fees for that year. The management fees is settled on semi-annual basis.

b) Administration fees

In consideration for administration of the Fund, in accordance with the terms and conditions, the Fund is obliged to pay the Fund manager a total administration fees of SR 150,000 per annum.

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2023

8 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

c) Board of Directors remuneration

Each independent member of the Board of Directors is allowed a remuneration of SR 10,000 per board meeting and maximum SR 20,000 in one year.

8.1 Related party transactions

The following are the details of the significant transactions with related parties during the period from 30 January to 31 December 2023:

<i>Name of related party</i>	<i>Nature of relationship</i>	<i>Nature of transactions</i>	SR
Alinma Investment company	Fund Manager	Management fees	(6,996,281)
		Administration fees (note 13)	(137,671)
Fund Board of Directors	Board of Directors	Board fees (note 13)	(40,005)

8.2 Related party balances

Period end balances (payable) arising from transactions with related parties are as follows:

<i>Name of related party</i>	<i>Nature of relationship</i>	<i>Nature of balances</i>	31 December 2023 SR
Alinma Investment company	Fund Manager	Management fees payable (note 10)	(3,319,997)
		Administration fees payables	(137,671)

9 UNEARNED RENTAL INCOME

Unearned rental income represents rental income received in advance during the year but not yet recognised as revenue. The movement in unearned rental income for the period from 30 January to 31 December 2023 is as follows:

	SR
Advance received during the period	93,802,557
Revenue recognised during the period	(89,300,173)
Balance at the end of the period	<u>4,502,384</u>

10 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As at 31 December 2023 SR
Management fees (note 8)	3,319,997
Value added tax payable	1,001,364
Regulatory fees	145,648
Custody fees	50,000
Other accrued expenses (i)	274,673
	<u>4,791,682</u>

(i) Other accrued expenses mainly includes accrued administration fees and accrued professional fees.

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2023

11 REVENUE FROM INVESTMENT PROPERTIES

The Fund's revenue from investment properties is concentrated within one operating segment and geographical region of the Kingdom of Saudi Arabia, comprised of operating lease income generated from 5 investment properties as disclosed in note 5.2.

12 FUND ESTABLISHMENT COST

In consideration of the fund offering process, the fund has paid expenses of receiving entities, legal advisor, engineering consultant and feasibility study fees as per the terms and conditions of the fund.

13 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>For the period from 30 January 2023 to 31 December 2023</i>
	SR
Regulator fees	910,342
Professional fees	210,000
Administration fees (note 8)	137,671
Board Fees (note 8)	40,005
Others	52,981
Custodian fees	91,644
	<u>1,442,643</u>

14 FAIR VALUE MEASUREMENT

14.1 Financial instruments

Financial assets consist of investments in mutual funds rental income receivables and bank balance. Financial liabilities consist of unearned rental income and other current liabilities. The fair values of other financial assets and financial liabilities are not materially different from their carrying values due to short term nature and are classified as level 2.

The following table shows the fair values of financial assets at FVTPL, including their levels in the fair value hierarchy:

<i>As at 31 December 2023</i>	<i>Level 1</i> SR	<i>Level 2</i> SR	<i>Level 3</i> SR	<i>Total</i> SR
Financial assets at FVTPL (note 7)	-	42,284,397	-	42,284,397

14.2 Non-financial assets

The following table shows the fair value of investment properties disclosed as at year end:

<i>31 December 2023</i>	<i>Level 1</i> SR	<i>Level 2</i> SR	<i>Level 3</i> SR	<i>Total</i> SR
<i>Investment properties</i>				
Vittori Palace Hotel	-	-	453,402,500	453,402,500
Rafal Ascott Hotel	-	-	267,266,500	267,266,500
Clarion Hotel Jeddah Airport	-	-	161,307,500	161,307,500
Comfort inn and Suites Hotel	-	-	89,088,000	89,088,000
Comfort inn Olaya	-	-	67,964,000	67,964,000
	<u>-</u>	<u>-</u>	<u>1,039,028,500</u>	<u>1,039,028,500</u>

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2023

14 FAIR VALUE MEASUREMENT (continued)

When the fair value of items disclosed in these financial statements cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The key assumptions are listed below.

Changes in assumptions about these factors could affect the fair value of items disclosed in these financial statements and the level where the items are disclosed in the fair value hierarchy.

The fair values of investment properties were assessed by Abaad Real Estate Valuation Company and Esnad Real Estate Valuation Company as disclosed in note 6. They are accredited independent valuers with a recognised and relevant professional qualification and with recent experience in the location and category of the investment properties being valued.

The valuation models have been applied in accordance with the Royal Institution of Chartered Surveyors (“RICS”) Valuation Standards, in addition to recently published International Valuation Standards issued by International Valuation Standards Council (“IVSC”) and applied by Saudi Authority for Accredited Valuers (“TAQEEM”).

31 December 2023

<u>Valuation approach</u>	<u>Key assumptions</u>	<u>Rate (%)</u>
Income approach	Discount rate	9.84 - 11.80
	Growth rate	2.76 - 2.80
	Capitalization rate	7.76 - 8.26

15 FINANCIAL RISK MANAGEMENT

The Fund’s activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

The Fund Manager is responsible for identifying and controlling risks. The Fund Board supervises the Fund Manager and is ultimately responsible for the overall management of the Fund.

The Fund has its terms and conditions document that sets out its overall business strategies, its tolerance of risks and its general risk management philosophy.

15.1 Credit risk

Credit risk is the risk that one party to financial instruments will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund is exposed to credit risks on the following financial instruments:

	<i>31 December</i> 2023 SR
Cash at bank	16,348,637
Rental income receivables	153,849
	<hr/> 16,502,486 <hr/>

The carrying amount of financial assets represents the maximum credit exposure. The Fund seeks to limit its credit risk with respect to rental income receivables by charging rent in advance, and by monitoring outstanding balances on an ongoing basis with the actual results for the Fund. For banks and financial institutions, the Fund only deals with reputable banks with sound credit ratings.

Alinma Hospitality REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2023

15 FINANCIAL RISK MANAGEMENT (continued)

15.2 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.

15.3 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Fund does not have any significant exposure to currency risk as all its monetary assets and monetary liabilities are denominated in Saudi Riyals.

16 ZAKAT AND INCOME TAX

The Ministry of Finance has issued a resolution ("MR") numbered 29791, dated 9 Jumada Al-Awwal 1444 H (corresponding to 3 December 2022) publishing certain zakat filing rules to be complied by investment funds in the Kingdom of Saudi Arabia, applicable for the financial year 2023. According to the MR the Fund is not subject to zakat or tax, however, will be required to file certain financial information with Zakat, Tax and Customs Authority ("ZATCA") commencing 1 January 2023. The filing with ZATCA is due by 30 April 2024.

17 DIVIDENDS DISTRIBUTION

During the period ended 31 December 2023, in accordance with the terms and conditions of the Fund, the Fund's Board has declared dividends of SR 0.32 per unit amounting to SR 32,640,672, which has been paid during the period ended 31 December 2023.

18 LEASE COMMITMENTS

Future rental commitments under the leases are as follows:

	2023 SR
No later than one year	74,412,839
Later than one year and not later than five years	395,603,860
Later than five years	693,627,474
	<u>1,163,644,173</u>

19 CONTINGENCIES

During the normal course of business, there are general litigations and legal claims. The Fund Manager takes legal advice as to the likelihood of success of claims and no provision is made when the action is unlikely to succeed. During 31 December 2023, there has been one case filed in relation to property purchase brokerage fees with the committees for Resolution of Securities against the Fund Manager and the case was dismissed due to lack of jurisdiction. The Fund Manager believes that there is no financial or legal impact on the Fund is expected from the final outcome of this case.

20 LAST VALUATION DAY

The last valuation day for the period was 31 December 2023.

21 EVENTS AFTER THE REPORTING DATE

On 1 January 2024 the Fund's Board declared dividends of SR 0.32 per unit amounting to SR 32,640,672, which was paid subsequent to year end on 9th January 2024.

22 APPROVALS OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 17 Ramadan 1445H (corresponding to 27 March 1445H).