

ALKHABEER REIT FUND
(A Real Estate Investment Traded Fund)

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
AND INDEPENDENT AUDITOR'S REPORT**



Crowe

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

ALKHABEER REIT FUND
(A Real Estate Investment Traded Fund)

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2020**

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of **Alkhabeer Reit Fund (A Real Estate Investment Traded Fund)** ("**The Fund**"), which comprise the statement of financial position as of December 31, 2020, the statement of profit or loss and other comprehensive income, statement of changes in net assets 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, 2020, 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.

Other Matter

The financial statements of the Fund for the period from inception date on December 16, 2018 up to December 31, 2019 were audited by another auditor who issued an unmodified opinion on April 28, 2020.

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:

Independent Auditors' Report – Continued

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

Key Audit Matters	How our audit addressed key audit matters
<p>Investment properties and right of use asset</p> <p>Impairment of Investment properties and right of use asset.</p> <p>As at 31 December 2020, the book value of investment properties and right of use asset held by the Fund amounted to SR 1,591 million (2019: SR 907 million).</p> <p>Investment property and right of use assets is measured initially at cost including transaction costs. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and impairment losses, if any. However, the fair value of the investment property is disclosed along with its impact on net assets per unit.</p> <p>In accordance with the requirements of relevant accounting standards, the Fund is required to assess indicators of impairment on its property at each reporting date. In case such indicators are identified, the recoverable amount of such property is required to be determined.</p> <p>As part of its assessment of impairment indicators, the Fund reviews both the internal and external indicators of impairment including but not limited to net cash outflows or operating losses, physical wear and tear of assets and adverse market changes or conditions. Moreover, the assessment of recoverable amounts entails the use of complex valuation techniques.</p> <p>Since, the evaluation of impairment indicators and ensuing recoverable amount assessment, where required, involves the exercise of significant judgment, it has therefore been determined to be a key audit matter.</p> <p>Refer to notes 7 and 8 to the financial statements for significant judgements and assumptions applied in the determination of the recoverable amounts of the investment properties and note 3 for the details of related accounting policies.</p>	<p>Our audit procedures in response to the assessed risk of material misstatement in valuation of investment properties comprised of:</p> <ul style="list-style-type: none"> ▪ Obtained an understanding of the management processes for identification, and mitigation of valuation risk. ▪ Performed test of details on the acquisition costs and ensured that all costs are appropriately capitalized. ▪ Assessed the Fund Manager's determination of the following: <ul style="list-style-type: none"> ○ The factors considered by the Fund in impairment indicator assessment, and ○ The base used in determine cash generating units. And it's the method used to calculate the recoverable amount. ▪ Assessed the recoverable amount assessment prepared by the Fund using valuation reports prepared by independent valuers and assessed the model, assumptions and estimates used in the calculation of fair values less cost of disposal ("fair value") and value in use. ▪ Assessed the key assumptions and estimates used, including discount rate, terminal rate, annual rental income, operating expenditure. Checked sensitivity analysis, including assessment of the effect of reasonably possible changes in the discount rate and operating expenditures on the forecasted cash flows to evaluate the impact. ▪ Compared the recoverable amount of each cash-generating unit with its carrying value. ▪ We have reviewed accompanying the financial statement disclosure ▪ We have reviewed the disclosures of key assumptions and judgements.

Independent Auditors’ Report – Continued

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

Key Audit Matters (Continued)

Key Audit Matters	How our audit addressed key audit matters
<p>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"> ▪ Assessing the independence, professional qualifications, competence and experience of the Fund’s independent valuers, also ensured the valuers were certified by the Saudi Authority for Accredited valuers (TAQEEM). Assistance by our property valuation specialist in this area to review the assumption used in valuing the investment properties. ▪ Agreeing observable inputs used in the valuations, such as rental income, occupancy rates, breaks clauses and lease length back to lease agreements for a sample of properties.

Other information included in the Fund’s 2020 Annual Report

Other information consists of the information included in the Fund’s 2020 Annual Report, other than the financial statements and our auditor’s report thereon.

The Fund Board is responsible for the other information. The Fund’s 2020 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 and the Funds terms and conditions, 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.

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

Independent Auditors' Report - Continued

To The Unitholders
Alkhabeer Reit Fund
(A Real Estate Investment Traded Fund)
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

(A Real Estate Investment Traded Fund)

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



Abdullah M. AlAzem
License No. 335

15 Sha'aban 1442H (March 28, 2021)
Jeddah, Kingdom of Saudi Arabia

ALKHABEER REIT FUND
(A Real Estate Investment Traded Fund)
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020
(Expressed in Saudi Riyals)

	Notes	As at December 31, 2020	As at December 31, 2019
ASSETS			
Cash at Banks		44,108,858	19,268,556
Account Receivables	4	35,693,221	25,898,743
Prepaid expenses and other debit balances	5	7,278,317	3,520,609
Due from a related party	6	19,266	20,000
Right of use asset	7	159,312,565	169,066,397
Investment properties	8	1,431,786,190	738,329,594
Total Assets		1,678,198,417	956,103,899
LIABILITIES AND NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS			
LIABILITIES			
Credit facilities	9	746,053,038	347,115,542
Due to related parties	6	5,865,852	2,758,797
Lease liabilities	7	17,101,709	17,709,224
Accrued expenses and other liabilities	10	53,023,595	16,775,107
Total Liabilities		822,044,194	384,358,670
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		856,154,223	571,745,229
Number of units issued (unit)		102,971,013	66,442,386
Net assets value per unit – book value	8	8.3145	8.6051
Net assets value per unit – fair value	8	8.7092	9.0357

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

ALKHABEER REIT FUND

(A Real Estate Investment Traded Fund)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**FOR THE YEAR ENDED DECEMBER 31, 2020**

(Expressed in Saudi Riyals)

		FOR THE YEAR ENDED DECEMBER 31, 2020	FOR THE PERIOD FROM INCEPTION DATE DECEMBER 16, 2018 TO DECEMBER 31, 2019
Rental income		88,230,559	72,181,028
Expenses			
Properties management fees	12	(3,735,906)	(1,536,066)
Administration and custody fees	12	(507,386)	(324,008)
Management fees	12	(5,633,442)	(3,720,151)
Finance costs		(19,756,439)	(15,719,892)
Depreciation of investment properties and right of use asset	7,8	(27,299,040)	(20,927,846)
Reversal of impairment loss / (impairment) of investment properties	8	1,939,099	(67,266,071)
Provision for expected credit losses	4	(13,858,672)	(641,328)
Fund establishment expenses and others	11	(18,249,195)	(26,419,841)
Total expenses		(87,100,981)	(136,555,203)
Profit / (loss) for the year / period		1,129,578	(64,374,175)
Other comprehensive income / (loss)		-	-
Total other comprehensive income / (loss) for the year / period		1,129,578	(64,374,175)

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

ALKHABEER REIT FUND

(A Real Estate Investment Traded Fund)

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2020**

(Expressed in Saudi Riyals)

	FOR THE YEAR ENDED DECEMBER 31, 2020	FOR THE PERIOD FROM INCEPTION DATE DECEMBER 16, 2018 TO DECEMBER 31, 2019
Net Assets Attributable to Unitholders		
Net assets attributable to unit holders at the beginning of the year / period	571,745,229	-
Proceed from initial subscription of units	-	237,544,860
Cash subscriptions with a nominal value of 10 riyals for each unit	37,956,770	-
Subscriptions issued against investment properties	327,329,500	426,879,000
Discount on issuance of underwriting units	(39,984,248)	-
Dividends	(42,022,606)	(28,304,456)
Total comprehensive income / (loss) for the year / period	1,129,578	(64,374,175)
Net assets attributable to unit holders at the end of the year / period	856,154,223	571,745,229

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

ALKHABEER REIT FUND
(A Real Estate Investment Traded Fund)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
(Expressed in Saudi Riyals)

	FOR THE PERIOD FROM INCEPTION DATE FOR THE DECEMBER 16, YEAR ENDED 2018 TO DECEMBER 31, 31, 2020 2019	
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
Profit / (loss) for the year / Period	1,129,578	(64,374,175)
Adjustment for:		
Depreciation of investment properties and right-of-use asset	27,299,040	20,927,846
(Reversal of impairment loss) / impairment of investment properties	(1,939,099)	67,266,071
Finance cost charged on lease liabilities	1,544,254	233,725
Finance cost	18,212,185	15,486,167
Expected credit losses	13,858,672	641,328
Changes in operating assets and liabilities:		
Due from a related party	734	(20,000)
Account receivables	(23,653,150)	(26,540,071)
Prepaid expenses and other debit balances	(3,757,708)	(3,520,609)
Due to related parties	3,107,055	2,758,797
Accrued expenses and other liabilities	35,675,719	16,775,107
Finance cost paid	(16,774,688)	(8,448,445)
Net cash provided by operating activities	54,702,592	21,185,741
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Additions to investment properties	(417,562,705)	(549,578,500)
Net cash used in investing activities	(417,562,705)	(549,578,500)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Net movement in credit facilities	397,499,999	339,999,911
Proceeds from initial subscription of units	-	237,544,860
Issuance of cash subscriptions	33,802,022	-
Dividends	(42,022,606)	(28,304,456)
Lease payments	(1,579,000)	(1,579,000)
Net cash provided by financing activities	387,700,415	547,661,315
Net change in cash at banks	24,840,302	19,268,556
Cash at banks at the beginning of the year / period	19,268,556	-
Cash at Banks at the End of the year / period	44,108,858	19,268,556
<u>Non cash Items:</u>		
Subscription issued against investment properties	291,500,000	426,879,000

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

ALKHABEER REIT FUND
(A Real Estate Investment Traded Fund)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(Expressed in Saudi Riyals)

1. THE FUND AND ITS ACTIVITIES

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

ALKHABEER REIT FUND
(A Real Estate Investment Traded Fund)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(Expressed in Saudi Riyals)

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 Certified Public Accountants.

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.

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.

ALKHABEER REIT FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
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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.

Changes in accounting policies

A) New standards, amendments to standards and interpretations

The Fund has adopted the following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB) effective from January 1, 2020 and accordingly adopted by the Fund.

Standard/Interpretation	Description
Amendments to IFRS 3	Definition of business
Amendments to IAS 1 & IAS 8	Definition of material
IFRS 9	Interest rate benchmark reform and hedge

The adoption of the amended standards and interpretations applicable to the Fund did not have any significant impact on these financial statements.

B) Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Fund's annual financial statements are listed below. The Fund intends to adopt these standards when they become effective.

Standard/Interpretation	Description	Effective from periods beginning on or after the following date
Amendments to IAS 1	Presentation of financial statements on classification of liabilities	January 1, 2021
Amendments to IFRS 3, IAS 16, IAS 37	-Business combinations - Conceptual Framework Property, plant and equipment- sales proceeds- selling from product element - Provisions, contingent liabilities and contingent assets - The costs of assessing the contract	January 1, 2021
Annual Improvements to IFRSs 2018–2020 Cycle	IFRS 9, 'Financial Instruments- derecognise a financial liability IFRS 16, 'Leases - lease incentives IAS 41, 'Agriculture - fair value	January 1, 2021

ALKHABEER REIT FUND
(A Real Estate Investment Traded Fund)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(Expressed in Saudi Riyals)

Summary of significant accounting policies

Cash and cash equivalents

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

INVESTMENT PROPERTIES

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

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

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

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

Item	Useful life
Buildings	40 years

Lands are not depreciated.

Borrowings

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

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.

ALKHABEER REIT FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(Expressed in Saudi Riyals)

Accrued expenses and other payable

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

Offsetting

Financial asset and liability is offset and net amounts reported in the 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

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

Right-of-use asset

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

Provisions

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

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.

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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.

Dividend

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

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 asset value of the unit

The net asset value 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.

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Financial assets

A financial asset includes the followings:

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

Classification and initial recognition

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

- 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. Transactions 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.

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DEBT INSTRUMENTS

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

- **Amortized cost**

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

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

Assets that are held for collection of contractual cash flows and for selling the financial assets, are measured at fair value through other comprehensive income (FVOCI). Movements in carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange 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.

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Financial liabilities

A financial liability is classified as follows:

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

Recognition and measurement

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

Offsetting of financial instruments

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

Derecognition of financial assets

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

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 .

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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.

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 2020 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, 2020.

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 2020. Further, management is monitoring and keeping an eye on the situation through their task force.

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.

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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.

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.

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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

	<u>2020</u>	<u>2019</u>
Accounts receivable	50,193,221	26,540,071
Provision for expected credit losses	(14,500,000)	(641,328)
	<u>35,693,221</u>	<u>25,898,743</u>

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

	<u>2020</u>	<u>2019</u>
Balance at the beginning of the year / period	641,328	-
Provision for the year / period	13,858,672	641,328
	<u>14,500,000</u>	<u>641,328</u>

5. PREPAIDS EXPENSES AND OTHER DEBIT BALANCES

	<u>2020</u>	<u>2019</u>
Value add tax deposits	6,469,214	1,923,876
Prepaid development cost of properties	487,516	1,562,400
Prepaid expense	71,587	34,333
Other	250,000	-
	<u>7,278,317</u>	<u>3,520,609</u>

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6. RELATED PARTIES TRANSACTIONS AND BALANCES

a) Due from related party comprises the following:

Related party	Nature of transaction	Amount of transaction		Balance	
		FOR THE YEAR ENDED DECEMBER 31, 2020	FOR THE PERIOD FROM INCEPTION DATE DECEMBER 16, 2018 TO DECEMBER 31, 2019	2020	2019
Awal Al malga Real Estate Company	Capital deposit	-	20,000		
	Expenses paid on behalf of	(734)	-	<u>19,266</u>	20,000
				<u>19,266</u>	<u>20,000</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		Balance	
		FOR THE YEAR ENDED DECEMBER 31, 2020	FOR THE PERIOD FROM INCEPTION DATE DECEMBER 16, 2018 TO DECEMBER 31, 2019	2020	2019
Alkhabeer Capital (Fund Manager)	Expenses paid on behalf of the Fund	26,940,469	19,370,580	525,500	-
	Management fees	5,633,442	3,720,151	4,673,467	2,392,789
	Administration fees	187,985	124,008	113,484	124,008
Alinma Investment Company	Custody Fees	319,401	200,000	519,401	200,000
	Aggregate compensation to Independent Fund				
Fund Board	Board Members	42,438	42,000	34,000	42,000
				<u>5,865,852</u>	<u>2,758,797</u>

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:

	2020	2019
Balance at the beginning of the year / period	169,066,397	178,007,408
Depreciation during the year / period	(9,753,832)	(8,941,011)
	<u>159,312,565</u>	<u>169,066,397</u>

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

Property Name	Property type	Valuation Method	Discount Rate	Fair Value as at December 31, 2020	Fair Value as at December 31, 2019
Gallery Mall	Commercial	Income approach	11% - 11.25%	161,234,500	183,430,000

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B) Lease liability

Lease liability is as follows:

	<u>2020</u>	<u>2019</u>
For a year	1,363,610	1,423,184
For more than a year	15,738,099	16,286,040
Total lease liability	17,101,709	17,709,224

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, 2020 amounted to SAR 1,544,254 (for the period from inception date December 16, 2018 to December 31, 2019: SAR 233,725).

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

8. INVESTMENT PROPERTIES

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

	<u>2020</u>	<u>2019</u>
Residential and commercial real estate investments	817,582,500	817,582,500
Acquisition of investments properties	706,225,000	-
Development costs	2,837,705	-
Accumulated depreciation	(29,532,043)	(11,986,835)
Impairment	(65,326,972)	(67,266,071)
	1,431,786,190	738,329,594

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

	<u>2020</u>	<u>2019</u>
Balance at the beginning of the year / period	67,266,071	-
(Reversal of impairment loss) / impairment	(1,939,099)	67,266,071
	65,326,972	67,266,071

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

	Lands*	Residential and commercial properties	Balance as of December 31, 2020
<u>Cost:</u>			
Balance at January 1, 2020	300,991,760	516,590,740	817,582,500
Additions during the year	154,708,500	554,354,205	709,062,705
Balance at December 31, 2020	455,700,260	1,070,944,945	1,526,645,205
<u>Accumulated depreciation:</u>			
Balance at January 1, 2020	-	11,986,835	11,986,835
Charge for the year	-	17,545,208	17,545,208
Balance at December 31, 2020	-	29,532,043	29,532,043
Net book value as of December 31, 2020	455,700,260	1,041,412,902	1,497,113,162
Impairment			(65,326,972)
Balance at December 31, 2020	455,700,260	1,041,412,902	1,431,786,190

	Lands*	Residential and commercial properties	Balance as of December 31, 2019
<u>Cost:</u>			
Balance at December 16, 2018	-	-	-
Additions during the period	300,991,760	516,590,740	817,582,500
Balance at December 31, 2019	300,991,760	516,590,740	817,582,500
<u>Accumulated depreciation:</u>			
Balance at December 16, 2018	-	-	-
Charge for the period	-	11,986,835	11,986,835
Balance at December 31, 2019	-	11,986,835	11,986,835
Net book value as of December 31, 2019	300,991,760	504,603,905	805,595,665
Impairment			(67,266,071)
Balance at December 31, 2019	300,991,760	504,603,905	738,329,594

*The lands are mortgaged with a local bank under a credit facility agreement.

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

As of December 31, 2020

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

As of December 31, 2019

Property name	Type	Location	Acquisition and development cost	Accumulated depreciation	Impairment	Net book value	Fair value
Homeworks Center	Retail	Riyadh	79,950,000	(598,750)	-	79,351,250	83,575,000
Palazzo Center	Retail	Riyadh	95,632,500	(1,180,813)	-	94,451,687	97,445,000
Al-Malqa complex	Residential	Riyadh	314,000,000	(6,028,023)	(67,266,071)	240,705,906	240,705,906
Elite Center	Multiple	Jeddah	164,000,000	(2,471,408)	-	161,528,592	166,830,000
Ahlan Court Center	Retail	Jeddah	71,750,000	(350,642)	-	71,399,358	72,850,000
Bin 2 Center	Multiple	Jeddah	92,250,000	(1,357,199)	-	90,892,801	91,170,000
			817,582,500	(11,986,835)	(67,266,071)	738,329,594	752,575,906

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The following are the main assumptions used in determining the fair value of investment properties as at December 31, 2020:

Property Name	Valuation Method	Discount Rate
Homeworks Center	Market, Income and Cost approach	8% - 9.5%
Palazzo Center	Market, Income and Cost approach	8.25% - 10.75%
Al-Malqa complex	Market, Income and Cost approach	8.5% - 10%
Elite Center	Income and Cost approach	9.5% - 11.25%
Ahlan Court Center	Income and Cost approach	8.5% - 11.25%
Bin 2 Center	Income and Cost approach	9.5% - 12%
Vision Colleges (formerly known as Al-Farabi Colleges)	Market and Income approach	7.5% - 9%
The training building for Vision Colleges (formerly known as AlFarabi Colleges)	Market, Income and Cost approach	10% - 11%
Elegance Tower	Market, Income and Cost approach	7.5% - 8.5%

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 valuestrat 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 21 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:

	2020	2019
Cost of investment properties and right of use asset	1,704,652,613	995,589,908
Accumulated depreciation	(48,226,886)	(20,927,846)
Impairment	(24,681,227)	(38,656,156)
Fair value of investment properties and right of use asset	1,631,744,500	936,005,906

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

	<u>2020</u>	<u>2019</u>
Net asset value at book value	856,154,223	571,745,229
Unrealized gains arising from revaluation	40,645,745	28,609,915
Net asset at fair value	896,799,968	600,355,144

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

	<u>2020</u>	<u>2019</u>
The net book value of the assets per unit	8.3145	8.6051
Unrealized gains arising from revaluation	0.3947	0.4306
Net Assets value per unit, at fair value	8.7092	9.0357

9. CREDIT FACILITIES

The Fund has a credit facility agreement with a local bank to obtain a bank financing amounted to 746 million Saudi riyals as of December 31, 2020 (as of December 31, 2019: 347 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>2020</u>	<u>2019</u>
Unearned rent income	43,278,633	8,635,150
Security deposit	7,732,368	7,732,368
Accrued finance charges	572,769	-
Accrued properties management fees	480,473	123,566
Retention payable	267,732	-
Refundable insurance	247,950	-
Professional and consultations fees	175,650	266,173
Other credit balances	268,020	17,850
	53,023,595	16,775,107

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11. FUND ESTABLISHMENT EXPENSES AND OTHERS

	FOR THE YEAR ENDED DECEMBER 31, 2020	FOR THE PERIOD FROM INCEPTION DATE DECEMBER 16, 2018 TO DECEMBER 31, 2019
Additional offering expenses*	15,640,305	-
Consulting and legal fees	1,058,998	1,126,976
Initial registration and listing fees – annual	641,866	449,069
Real estate valuation fees	260,275	232,200
Profit rate differences	-	-
Fund establishment expenses	-	23,447,881
Other expenses	647,751	1,163,715
	18,249,195	26,419,841

*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.

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d) SUBSCRIPTION FEES

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

e) CAPITAL RESTRUCTURING FEES

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

f) FINANCING STRUCTURE FEES

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

g) PROPERTIES MANAGEMENT FEES

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

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 during the period from the Fund's inception on December 16, 2018 till December 31, 2019 and for the year ended December 31, 2020. The details of these distributions are as follows:

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

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

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

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.

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.

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.

16. LAST VALUATION DATE

The last date for valuation during the year is December 31, 2020.

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.

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.

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

As At December 31,2019	Book Value	Less than a year	More than a year
<u>Non-derivative financial liabilities</u>			
Credit facilities	347,115,542	7,115,542	340,000,000
Due to related parties	2,758,797	2,758,797	-
Lease liability	17,709,224	1,423,184	16,286,040
Accrued expenses and other Payable	16,775,107	677,089	16,098,018
	384,358,670	11,974,612	372,384,058

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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)	
December 31, 2020						
Financial Assets						
Cash at Banks	44,108,858	-	-	-	-	-
Account Receivables	35,693,221	-	-	-	-	-
Prepaid expenses and other debit balances	7,278,317	-	-	-	-	-
Due from a related party	19,266	-	-	-	-	-
	87,099,662	-	-	-	-	-
Financial Liabilities						
Credit facilities	746,053,038	-	-	-	-	-
Due to related parties	5,865,852	-	-	-	-	-
Lease Liability	17,101,709	-	-	-	-	-
Accrued expenses and other liabilities	53,023,595	-	-	-	-	-
	822,044,194	-	-	-	-	-
December 31, 2019						
Financial Assets						
Cash at Banks	19,268,556	-	-	-	-	-
Account Receivables	25,898,743	-	-	-	-	-
Prepaid expenses and other debit balances	3,520,609	-	-	-	-	-
Due from a related party	20,000	-	-	-	-	-
	48,707,908	-	-	-	-	-
Financial Liabilities						
Credit facilities	746,053,038	-	-	-	-	-
Due to related parties	5,865,852	-	-	-	-	-
Lease Liability	17,101,709	-	-	-	-	-
Accrued expenses and other liabilities	53,023,595	-	-	-	-	-
	822,044,194	-	-	-	-	-

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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. SUBSEQUENT EVENTS

On January 31, 2021, the Fund Board of Directors approved the distribution of dividends for the period from October 1, 2020 to December 31, 2020, at an amount of SR 0.125 per unit and a total of SR 12.87 million to unit holders.

21. COMPARATIVE FIGURES

Certain figures have been reclassified in comparative for the period from the inception on December 16, 2018 to December 31, 2019 in financial statements to conform with the presentation in the current year.

22. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Funds Board of Directors on March 25, 2021.