

Al Azem, Al Sudairy, Al Shaikh & Partners

For Professional Consulting – Member Crowe Global

ALKHABEER REIT FUND - Expressed in Saudi Riyals
(Managed by Alkhabeer Capital Company)

**INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) AND THE
INDEPENDENT AUDITOR'S REVIEW REPORT
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022**

ALKHABEER REIT FUND - Expressed in Saudi Riyals
(Managed by Alkhabeer Capital Company)
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FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

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Independent Auditor's Review Report on the Interim Condensed Financial Statements

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of **Alkhabeer Reit Fund ("The Fund")** managed by **Alkhabeer Capital Company ("Fund Manager")** as at June 30, 2022, and the related statements of profit or loss and other comprehensive income, interim condensed statement of changes in equity attributable to unitholders and interim condensed cash flows for the six-month period then ended, and notes which form an integral part of these interim condensed financial statements. The Fund's management are responsible for the preparation of these interim condensed financial statements and ensuring that they present fairly in accordance with the International Accounting Standard No. (34) "Interim Financial Reporting" (IAS 34), as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Auditing Standard Review Engagement (2410) "Review of Interim Financial Information Performed by the Independent Auditor of the Fund" (ISRE 2410) that is endorsed in the Kingdom of Saudi Arabia. A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing ('ISAs'), that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in the audit course. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information are not fairly presented, in all material respects, the fund's financial position as at June 30, 2022 and financial performance, and its cash flows for the six-month period then ended in accordance with the International Financial Reporting Standards "IFRS" that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement issued by Saudi Organization for Chartered and Professional Accountants.

AlAzem, AlSudairy, AlShaikh & Partners
For Professional Consulting



Abdullah M. AlAzem
License No. 335

20 Muharam 1444H (August 18, 2022)
Jeddah, Kingdom of Saudi Arabia

ALKHABEER REIT FUND

(Managed by Alkhabeer Capital Company)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**AS AT JUNE 30, 2022**

(Expressed in Saudi Riyals)

		As at June 30, 2022 (Unaudited)	As at December 31, 2021 (Audited)
	Notes		
ASSETS			
Cash at banks		19,871,566	50,968,681
Account receivables	4	17,015,765	21,981,126
Prepaid expenses and other debit balances		11,607,574	14,984,081
Due from a related party	5	18,781	18,781
Right of use asset	6	145,677,446	150,191,103
Investment properties	7	1,712,496,161	1,695,495,117
Total Assets		1,906,687,293	1,933,638,889
LIABILITIES AND EQUITY ATTRIBUTABLE TO UNITHOLDERS			
LIABILITIES			
Credit facilities	8	746,975,058	745,921,994
Due to related parties	5	4,460,076	5,644,519
Lease liabilities	6	15,621,118	16,379,505
Accrued expenses and other credit balances		40,629,866	68,867,115
Total Liabilities		807,686,118	836,813,133
EQUITY ATTRIBUTABLE TO UNITHOLDERS		1,099,001,175	1,096,825,756
Total Liabilities and Equity		1,906,687,293	1,933,638,889
Number of units issued (unit)		141,008,848	141,008,848
Equity per unit – book value	7	7.7938	7.7784
Equity per unit – fair value	7	8.5304	8.3484

The accompanying notes from (1) to (19) form an integral part of these interim condensed financial statements.

ALKHABEER REIT FUND
(Managed by Alkhabeer Capital Company)
**INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022
(Expressed in Saudi Riyals)

		FOR THE SIX-MONTH PERIOD ENDED JUNE 30,	
		2022	2021
	Notes	(Unaudited)	(Audited)
Rental income		59,591,073	54,651,340
Expenses			
Properties / Facilities management fees	9	(3,462,860)	(3,278,946)
Administration and custody fees	5,9	(392,788)	(309,862)
Management fees	5,9	(3,067,801)	(3,227,102)
Finance costs		(18,160,511)	(14,934,566)
Depreciation of investment properties and right of use asset	6,7	(21,693,787)	(18,281,337)
Reversal Impairment / (Impairment) of investment properties	7	32,423,674	(30,227,094)
Expected credit losses	4	(6,000,000)	-
Other expenses		(1,809,369)	(1,849,020)
Total expenses		(22,163,442)	(72,107,927)
Profit / (Loss) for the period		37,427,631	(17,456,587)
Other comprehensive income		-	-
Total comprehensive income / (loss) for the period		37,427,631	(17,456,587)

The accompanying notes from (1) to (19) form an integral part of these interim condensed financial statements.

ALKHABEER REIT FUND

(Managed by Alkhabeer Capital Company)

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO UNITHOLDERS**FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022**

(Expressed in Saudi Riyals)

		FOR THE SIX-MONTH PERIOD ENDED JUNE 30,	
		2022	2021
	Note	(Unaudited)	(Audited)
Equity Attributable to Unitholders			
Equity attributable to unitholders at the beginning of the period		1,096,825,756	856,154,223
Dividends	11	(35,252,212)	(25,742,754)
Total comprehensive income / (loss) for the period		37,427,631	(17,456,587)
Equity attributable to unitholders at the end of the period		<u>1,099,001,175</u>	<u>812,954,882</u>

Transactions in units for the period are summarized as follows:

		FOR THE SIX-MONTH PERIOD ENDED JUNE 30,	
		2022	2021
		(Unaudited)	(Audited)
Number of units at the beginning of the period		141,008,848	102,971,013
Subscription of units - Cash		-	-
Subscription of units - In kind contribution		-	-
Number of units at the end of the period		<u>141,008,848</u>	<u>102,971,013</u>

The accompanying notes from (1) to (19) form an integral part of these interim condensed financial statements.

ALKHABEER REIT FUND

(Managed by Alkhabeer Capital Company)

INTERIM CONDENSED STATEMENT OF CASH FLOWS**FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022**

(Expressed in Saudi Riyals)

	FOR THE SIX-MONTH PERIOD ENDED JUNE 30,	
	2022	2021
	(Unaudited)	(Audited)
<u>CASH FLOW FROM OPERATING ACTIVITIES:</u>		
Profit / (loss) for the period	37,427,631	(17,456,587)
Adjustment for:		
Depreciation of investment properties and right-of-use asset	21,693,787	18,281,337
(Reversal of impairment) / impairment of investment properties	(32,423,674)	30,227,094
Finance costs charged on lease liabilities	820,613	856,796
Finance costs	17,339,898	14,077,770
Expected credit losses	6,000,000	-
Changes in operating assets and liabilities:		
Account receivables	(4,522,139)	(6,841,020)
Prepaid expenses and other debit balances	3,376,507	361,949
Due to related parties	(1,184,443)	2,135,071
Accrued expenses and other credit balances	(28,237,249)	7,916,993
Finance costs paid	(17,339,898)	(14,077,770)
Net cash provided by operating activities	2,951,033	35,481,633
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Additions to investment properties	(1,365,465)	(335,012,475)
Additions to right-of-use asset	(392,035)	(289,200)
Net cash used in investing activities	(1,757,500)	(335,301,675)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Net movement in credit facilities	1,053,064	(62,593)
Dividends paid	(31,764,712)	(11,127,627)
Lease payments	(1,579,000)	(1,579,000)
Accrued subscriptions	-	335,497,508
Net cash (used in) / provided by financing activities	(32,290,648)	322,728,288
Net change in cash at banks	(31,097,115)	22,908,246
Cash at banks at the beginning of the period	50,968,681	44,108,858
Cash at banks at the end of the period	19,871,566	67,017,104
<u>Non-cash items:</u>		
Dividends payable	-	12,871,377
Dividends by writing off receivables for unitholders	3,487,500	1,743,750

The accompanying notes from (1) to (19) form an integral part of these interim condensed financial statements.

ALKHABEER REIT FUND

(Managed by Alkhabeer Capital Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

(Expressed in Saudi Riyals)

1. THE FUND AND ITS ACTIVITIES

Alkhabeer Reit Fund (the "Fund") is a closed-ended Shari'a compliant real estate investment traded fund, established in accordance in the rules and regulations enforced in the Kingdom of Saudi Arabia as well as under the guidelines of the Capital Market Authority (CMA). The Fund has been established on 16 December 2018 and managed by Alkhabeer Capital Company ("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 sustainable rental income yield and periodic cash distributions of not less than 90% of the Fund's annual net profits, by investing not less than 75 % of the Funds total asset value, according to its latest 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 ("CMA") on 16 October 2018 (9 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 and 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 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 Shari'a Boards guidelines in its investments and transactions. The books and records of the Fund are maintained in Saudi Riyals (SAR), which represents the functional and presentation currency of the Fund.

2. REGULATORY AUTHORITY

The Fund is governed by the Real Estate Investment Funds Regulations (the "Regulations") and REIT instructions published by CMA on 19 Jumada al-Alkhirah 1427H (corresponding to 15 July 2006) thereafter amended on 12 Rajab 1442H (corresponding to 24 February 2021), detailing requirements for all types of funds within the Kingdom of Saudi Arabia.

3. BASIS OF PREPARATION

Statement of compliance

These interim condensed financial statements have been prepared in accordance with the International Accounting Standard (34) "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") and prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA considering that the financial performance for the interim condensed financial six-month period ended in June 30, 2022, may not necessarily be indicative of the expected results for the year that will be ended on December 31, 2022, whereas no allocation has been made to the profit for the period.

ALKHABEER REIT FUND

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

(Expressed in Saudi Riyals)

The interim condensed financial statements do not include all of the information and required for the annual financial statements, and should be read in conjunction with the Fund's annual financial statements for the year ended December 31, 2021. The International Accounting Standard (34) states that the objective of preparing the interim condensed financial statements is to update on the annual financial statements. Therefore, the International Accounting Standard (34) require less disclosure in the interim condensed financial statements to be reported compared to the disclosure required by the International Financial Reporting Standards ("IFRS") in the annual financial statements.

Basis of measurement

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

Functional and presentation currency

These interim condensed 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 were be received from selling an asset or paid 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.

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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

New standards, amendments to standards and interpretations:

There are no new standards issued, however, there are number of amendments to standards which are effective from January 1, 2022 and has been explained in Fund annual Financial Statements, but they do not have a material effect on the Fund's Interim Condensed Financial Statements.

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 not subject to significant risk of changes in value.

Investment properties

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

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

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

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

When owner-occupied properties become investment properties, the Fund accounts for such properties in accordance with the policies applicable to property, plant and equipment up to the date of the change in use. The following are the estimated useful life for major fixed assets items:

Item	Useful life
Buildings	40 years

Lands are not depreciated.

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FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

(Expressed in Saudi Riyals)

Borrowings

Borrowings are initially recognized 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 recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be withdrawn. In this case, the fee is deferred until the withdrawal occurs.

To the extent that there is no evidence that it is probable that some or all of the facilities 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 Fund accounts for finance cost (interest cost and amortization of transaction cost) using 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.

Derivative financial instruments and hedge accounting

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

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

Revenue recognition

Revenue includes rental income from investment properties.

The Fund records the rent resulting from the lease contracts using the straight-line method. After initiation of the lease, the Fund recognizes variable lease payments that are not based on a specific index or rate (payments based on performance or usage, for example) when earned. When the Fund provides incentives to its tenants, the cost of incentives is recognized using the straight-line method as a reduction for rental income.

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

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

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

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FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

(Expressed in Saudi Riyals)

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 re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received, unless the Fund is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The estimated useful life of the asset used by the Fund is 18 years.

Provisions and Contingent Liabilities

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

Lease liabilities

At the commencement date of the lease, the Fund recognizes 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 recognized as expense in the period on which the event or condition that triggers the payment. 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 stated in the lease is not easily determined. After the commencement date, the amount of lease liabilities is increased to reflect the accumulation of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured 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 valuation 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.

Trade receivable

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate 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.

ALKHABEER REIT FUND

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

(Expressed in Saudi Riyals)

Value added tax

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

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

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

Zakat and income tax

Zakat and income tax are an obligation on the unitholders, therefore, no provision for such liabilities is made in these interim condensed financial statements.

Net equity of the unit

The net equity of the unit is calculated and disclosed in the financial position by dividing the net assets of the Fund attributable to unitholders by the number of issued units.

Financial instruments

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

Financial assets

A financial asset includes the followings:

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

Classification and initial recognition

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

- Financial assets measured at fair value (either through profit or loss, or through other comprehensive income), and
- Financial assets 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 profit or loss or 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 irreversible selection at the time of initial recognition to account for the equity instruments at fair value through OCI. The Fund reclassifies debt instruments only when its business model for managing those assets changes.

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(Managed by Alkhabeer Capital Company)

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(Expressed in Saudi Riyals)

At initial recognition, the Fund measures a financial asset (not classified as part of fair value through profit or loss) at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset through OCI. In the case of financial assets measured at fair value through profit or loss, the transaction costs are recorded in the statement of profit or loss.

Subsequent measurement

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 net assets.

Changes in the fair value of financial assets measured at fair value are recognized at fair value through profits and losses in profit or loss.

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 them, are measured at fair value through other comprehensive income (FVOCI). Changes 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 gain or loss previously recognized in OCI is transferred from OCI to retained earnings. Realized gain or loss are recognized in profit or loss.

- **Fair value through profit or losses (FVTPL)**

Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through statement of profit or loss (FVTPL). A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship as part of profit or loss. It is recognized in net as gains or losses in the year it occurs. Similarly, interest income from these financial assets is included as financial interest in gains or losses.

ALKHABEER REIT FUND

(Managed by Alkhabeer Capital Company)

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FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

(Expressed in Saudi Riyals)

Effective interest rate (EIR) 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 discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net book value on initial recognition.

Impairment

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

Financial liabilities

A financial liability is classified as follows:

- Contractual obligation to deliver cash or another financial asset to another entity.
- Contractual obligation to exchange financial instruments with another entity under conditions that are expected to be unfavorable to the entity.
- 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 interim condensed statement 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.

De-recognition of financial assets

The Fund de-recognizes 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 liability related to the 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 the liabilities associated with the proceeds received.

On de-recognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the amount of the consideration received and accrued is recognized in the profit or loss. In addition, on de-recognition of an investment in a debt instrument classified as at FVTOCI, the gain or loss previously recognized in the revaluation reserve is reclassified to the profit or loss. In contrast, on de-recognition of an investment in equity instrument which the Fund has elected on initial recognition to measure at FVTPL, the gains or losses are recognized in the interim condensed financial statement of profit or loss.

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

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Fund's interim condensed 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.

Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities recorded in the interim condensed statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (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 price volatility risk. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Provision for expected credit losses on receivables against operating leases

The Fund uses a provision matrix to calculate ECLS of receivables 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 analyzed.

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 not be representative of the client'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.

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Impairment of investment properties

Investment properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the investment property exceeds its recoverable amount which is the higher of its net cost to sell or value in use. For the purpose of assessing impairment, investment properties are grouped at lowest levels for which there are separately identifiable cash flows (cash generating units). Where an impairment loss subsequently reverses, the carrying amount of the investment property or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the investment property or cash generating unit in prior periods. A reversal of an impairment loss is recognized as income immediately in the statement of profit or loss.

Impairment of non-financial assets

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

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

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

4. ACCOUNT RECEIVABLES

	As at June 30, 2022 (Unaudited)	As at December 31, 2021 (Audited)
Accounts receivable	58,015,765	56,981,126
Expected credit losses	(41,000,000)	(35,000,000)
	<u>17,015,765</u>	<u>21,981,126</u>

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

	As at June 30, 2022 (Unaudited)	As at December 31, 2021 (Audited)
Balance at the beginning of the period / year	35,000,000	14,500,000
Charged for the period / year	6,000,000	20,500,000
	41,000,000	35,000,000

5. RELATED PARTIES TRANSACTIONS AND BALANCES

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

a) Due from a related party comprises the following:

	Nature of transaction	Amount of transaction		Balance	
		For the period ended June 30, 2022 (Unaudited)	For the period ended June 30, 2021 (Audited)	As at June 30, 2022 (Unaudited)	As at December 31, 2021 (Audited)
Related party					
Awal Al Malqa Real Estate Company	Expenses paid on behalf	-	-	18,781	18,781
				18,781	18,781

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, 1438H (corresponding to July 13, 2017) 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 parties	Nature of transaction	Amount of transaction		Balance	
		For the period ended June 30, 2022 (Unaudited)	For the period ended June 30, 2021 (Audited)	As at June 30, 2022 (Unaudited)	As at December 31, 2021 (Audited)
Alkhabeer Capital Company (Fund Manager)	Expenses paid on behalf of the Fund	-	3,917,500	525,500	525,500
	Management fees	3,067,801	3,227,102	3,067,801	4,482,572
	Administration fees	149,550	107,570	149,550	149,419
	Payments to Fund Manager	(4,631,991)	(4,786,951)		
Alinma Investment Company	Custody Fees	243,238	202,292	688,266	445,028
Fund Board	Total compensation paid to Independent Fund board members	28,959	20,959		
	Payments to Fund board members	(42,000)	-	28,959	42,000
				<u>4,460,076</u>	<u>5,644,519</u>

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

6. LEASES

a) Right-of-use asset

The movement in right of use assets relative to the Fund is as follow:

	As at June 30, 2022 (Unaudited)	As at December 31, 2021 (Audited)
<u>Cost:</u>		
Balance at the beginning of the period / year	178,665,735	169,066,397
Additions during the period / year	392,035	9,599,338
Balance at the end of the period / year	179,057,770	178,665,735
<u>Accumulated depreciation:</u>		
Balance at the beginning of the period / year	28,474,632	9,753,832
Charge during the period / year	4,905,692	18,720,800
Balance at the end of the period / year	33,380,324	28,474,632
Net book value at the end of the period / year	145,677,446	150,191,103
Impairment	-	-
Balance at the end of the period / year	145,677,446	150,191,103

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

Property Name	Property type	Valuation Method	Discount Rate	Fair Value as at June 30, 2022 (Unaudited)	Fair Value as at June 30, 2021 (Audited)
Gallery Mall	Commercial	Income approach	11% - 11.25%	171,185,000	168,597,000

b) Lease liability

The movement in lease liability is as follow:

	As at June 30, 2022 (Unaudited)	As at December 31, 2021 (Audited)
Balance at the beginning of the period / year	16,379,505	17,101,709
Paid during the period / year	(1,579,000)	(1,579,000)
Interest charged during the period / year	820,613	856,796
Total lease liability at the end of the period / year	15,621,118	16,379,505

The weighted average incremental borrowing rate applied to lease liabilities was 5.01%. Total finance cost on lease liabilities for the period on June 30, 2022 amounted to SAR 820,613, for the year on December 31, 2021 amounted to SAR 856,796.

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

7. INVESTMENT PROPERTIES

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

	As at June 30, 2022 (Unaudited)	As at December 31, 2021 (Audited)
Residential and commercial real estate investments	1,858,045,000	1,523,807,500
Acquisition of properties	-	334,237,500
Development costs	4,978,145	3,612,680
Accumulated depreciation	(76,487,665)	(59,699,570)
Impairment	(74,039,319)	(106,462,993)
	1,712,496,161	1,695,495,117

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

	As at June 30, 2022 (Unaudited)	As at December 31, 2021 (Audited)
Balance at the beginning of the period / year	106,462,993	65,326,972
(Reversal of impairment) / Impairment	(32,423,674)	41,136,021
	74,039,319	106,462,993

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

June 30, 2022 (Unaudited):	Lands*	Residential and commercial properties*	As at June 30, 2022 (Unaudited)
Cost:			
Balance at January 1, 2022	519,975,542	1,341,682,138	1,861,657,680
Additions during the period	-	1,365,465	1,365,465
Balance at June 30, 2022	519,975,542	1,343,047,603	1,863,023,145
Accumulated depreciation:			
Balance at January 1, 2022	-	59,699,570	59,699,570
Charge for the period	-	16,788,095	16,788,095
Balance at June 30, 2022	-	76,487,665	76,487,665
Net book value as at June 30, 2022	519,975,542	1,266,559,938	1,786,535,480
Impairment	-	-	(74,039,319)
Balance at June 30, 2022	519,975,542	1,266,559,938	1,712,496,161

* The Properties and lands are mortgaged with a local bank under a credit facility agreement (note 8) except for (Akun warehouses).

December 31, 2021 (Audited):	Lands*	Residential and commercial properties*	December 31, 2021 (Audited)
Cost:			
Balance at January 1, 2021	455,700,260	1,070,944,945	1,526,645,205
Additions during the year	64,275,282	270,737,193	335,012,475
Balance at December 31, 2021	519,975,542	1,341,682,138	1,861,657,680
Accumulated depreciation:			
Balance at January 1, 2021	-	29,532,043	29,532,043
Charge for the year	-	30,167,527	30,167,527
Balance at December 31, 2021	-	59,699,570	59,699,570
Net book value as at December 31, 2021	519,975,542	1,281,982,568	1,801,958,110
Impairment	-	-	(106,462,993)
Balance at December 31, 2021	519,975,542	1,281,982,568	1,695,495,117

* The Properties and lands are mortgaged with a local bank under a credit facility agreement (note 8) except for (Akun warehouses).

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d) The details of investment properties are as follows:

June 30, 2022 (Unaudited)

Property name	Type	Location	Acquisition and development cost	Accumulated depreciation	Impairment*	Net book value	Fair value
B&Q Retail Company (formerly known as Homeworks Center)							
Palazzo Center	Retail	Riyadh	79,950,000	(2,095,625)	(15,065,375)	62,789,000	62,789,000
Al-Malqa complex	Retail	Riyadh	95,632,500	(4,132,844)	(22,419,656)	69,080,000	69,080,000
Elite Center	Residential	Riyadh	318,978,145	(22,655,100)	(15,273,045)	281,050,000	281,050,000
Ahlan Court Center	Multi-use	Jeddah	164,000,000	(9,211,612)	(4,858,388)	149,930,000	149,930,000
Bin 2 Center	Retail	Jeddah	71,750,000	(1,306,939)	(5,003,061)	65,440,000	65,440,000
Vision Colleges (formerly known as Al-Farabi Colleges)	Multi-use	Jeddah	92,250,000	(5,058,650)	(276,350)	86,915,000	86,915,000
The training building for Vision Colleges (formerly known as Al-Farabi Colleges)	Educational	Riyadh	215,250,000	(8,303,075)	-	206,946,925	211,665,000
Elegance Tower	Educational	Riyadh	66,625,000	(1,832,233)	-	64,792,767	75,980,000
Vision Colleges - Jeddah	Office	Riyadh	424,350,000	(15,142,531)	-	409,207,469	471,650,000
Akun warehouses	Educational	Jeddah	107,500,000	(2,347,730)	(7,152,270)	98,000,000	98,000,000
	Logistics	Jeddah	226,737,500	(4,401,326)	(3,991,174)	218,345,000	218,345,000
			1,863,023,145	(76,487,665)	(74,039,319)	1,712,496,161	1,790,844,000

*The movement in impairment during the period is as follows:

June 30, 2022 (Unaudited)

Property name	Accumulated impairment at the beginning of the period	Reversal impairment for the period	Accumulated impairment at the end of the period
B&Q Retail Company (formerly known as Homeworks Center)			
Palazzo Center	(15,559,750)	494,375	(15,065,375)
Al-Malqa complex	(22,925,061)	505,405	(22,419,656)
Elite Center	(38,457,819)	23,184,774	(15,273,045)
Ahlan Court Center	(7,516,431)	2,658,043	(4,858,388)
Bin 2 Center	(5,769,320)	766,259	(5,003,061)
Vision Colleges - Jeddah	(1,716,640)	1,440,290	(276,350)
Akun warehouses	(8,326,135)	1,173,865	(7,152,270)
	(6,191,837)	2,200,663	(3,991,174)
	(106,462,993)	32,423,674	(74,039,319)

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

December 31, 2021 (Audited)

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

*The movement in impairment during the year is as follows:

December 31, 2021 (Audited)

Property name	Accumulated impairment at the beginning of the year	Reversal impairment / (impairment) for the year	Accumulated impairment at the end of the year
B&Q Retail Company (formerly known as Homeworks Center)	(37,500)	(15,522,250)	(15,559,750)
Palazzo Center	(8,965,875)	(13,959,186)	(22,925,061)
Al-Malqa complex	(48,104,187)	9,646,368	(38,457,819)
Elite Center	-	(7,516,431)	(7,516,431)
Ahlan Court Center	(4,416,839)	(1,352,481)	(5,769,320)
Bin 2 Center	(1,727,221)	10,581	(1,716,640)
Vision Colleges - Jeddah	(2,075,350)	(6,250,785)	(8,326,135)
Akun warehouses	-	(6,191,837)	(6,191,837)
	(65,326,972)	(41,136,021)	(106,462,993)

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The following are the main assumptions used in determining the fair value of investment properties as at June 30, 2022:

Property Name	Valuation Method	Discount / capitalization rate
B&Q Retail Company (formerly known as Homeworks Center)	Income approach	8% - 9.5%
Palazzo Center	Income approach	8.25% - 10.75%
Al-Malqa complex	Income approach	7.5% - 10.5%
Elite Center	Income approach	9.5% - 11.25%
Ahlan Court Center	Income approach	8.5% - 11.25%
Bin 2 Center	Income approach	9.5% - 12%
Vision Colleges (formerly known as Al-Farabi Colleges)	Income approach	7.5% - 9%
The training building for Vision Colleges (formerly known as AlFarabi Colleges)	Income and cost approach	10%
Elegance Tower	Income approach	8.5% - 9.5%
Vision Colleges - Jeddah	Income approach	7.5% - 8.5%
Akun warehouses	Income approach	7.25% - 10%

The valuations of the investment properties and right of use asset were carried out by White Cubes, and Abaad Advanced Office and his partner, and Value Start Real Estate Valuation Office which are accredited valuers by Saudi Authority for accredited values (TAQEEM).

THE IMPACT OF NET ASSETS VALUE INSTUATION OF EVALUATION INVESTMENT PROPERTIES AND RIGHT OF USE ASSET AT FAIR VALUE

In accordance with article 35 of the Real Estate Investment Funds Regulations issued by the Capital Market Authority (CMA), Saudi Arabia, the Fund manager estimates the fair value of the funds real estates based on two valuations prepared by independent values. However, in accordance with IFRS, investments in real estate's and right of use asset properties are carried at cost less depreciation and impairment, and for the purpose of disclosing information, the fair value has been disclosed below:

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

	As at June 30, 2022 (Unaudited)	As at December 31, 2021 (Audited)
Cost of investment properties and right of use asset	2,042,080,915	2,040,323,415
Accumulated depreciation	(109,867,989)	(88,174,202)
Impairment	29,816,074	(26,092,713)
Fair value of investment properties and right of use asset	1,962,029,000	1,926,056,500

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

	As at June 30, 2022 (Unaudited)	As at December 31, 2021 (Audited)
Equity attributable to unitholders	1,099,001,175	1,096,825,756
Unrealized gains arising from revaluation	103,855,393	80,370,280
Net asset at fair value	1,202,856,568	1,177,196,036

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

	As at June 30, 2022 (Unaudited)	As at December 31, 2021 (Audited)
Equity per unit	7.7938	7.7784
Unrealized gains arising from revaluation	0.7366	0.5700
Net equity per unit, at fair value	8.5304	8.3484

8. CREDIT FACILITIES

The Fund has a credit facility agreement with a local bank to obtain a bank financing amounted to 747 million Saudi riyals as at June 30, 2022 (as at December 31, 2021: 745.9 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.

9. ADMINISTRATIVE FEES AND OTHER EXPENSES

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

a) Administrative fees

The Fund administrators are 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.

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c) Custody fees

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

d) Subscription fees

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

e) Capital structuring fees

The Fund Manager is entitled to obtain a capital restructuring fees by amount of 1.5% of the total subscription amounts (cash and in kind) that were collected during the initial offering period or upon the collection of any other future subscription amounts, whether in cash or in kind.

f) Debt structuring 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 such that the said fees are paid from the Fund's assets.

10. 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.

11. DIVIDENDS

The Fund's board of directors approved to dividends for the period ended June 30, 2022 and for the year ended December 31, 2021. The details of these dividends are as follows:

Approval Date	Amount per unit	Total
January 31, 2021	0.125	12,871,376.63
April 29, 2021	0.125	12,871,376.63
July 29, 2021	0.125	17,626,106.00
October 31, 2021	0.125	17,626,106.00
January 31, 2022	0.125	17,626,106.00
May 8, 2022	0.125	17,626,106.00

ALKHABEER REIT FUND

(Managed by Alkhabeer Capital Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022

(Expressed in Saudi Riyals)

On January 31, 2021, the Fund Board of Directors approved the payment of dividends for the period from October 1, 2020 to December 31, 2020, at an amount of SAR 0.125 per unit and a total of SAR 12.871 million to unitholders. The dividend was paid during the period ended June 30, 2021.

On April 29, 2021, the Fund Board of Directors approved the payment of dividends for the period from January 1, 2021 to March 31, 2021, at an amount of SAR 0.125 per unit and a total of SAR 12.871 million to unitholders. The dividend was paid after the period ended June 30, 2021.

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

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

On January 31, 2022, the Fund Board of Directors approved the payment of dividends for the period from October 1, 2021 to December 31, 2021, at an amount of SAR 0.125 per unit and a total of SAR 17.626 million to unitholders. The dividend was paid during the period ended June 30, 2022.

On May 8, 2022, the Fund Board of Directors approved the payment of dividends for the period from January 1, 2022 to March 31, 2022, at an amount of SAR 0.125 per unit and a total of SAR 17.626 million to unitholders. The dividend was paid during the period ended June 30, 2022.

12. 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 went into effect on January 31, 2020. The purpose of the contract is to manage the cash flow risk of the Fund, which results in profit rate.

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

13. LAST VALUATION DATE

The last date for valuation during the period is June 30, 2022.

14. 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 will fluctuate due to changes in foreign exchange rates. The Fund's transactions are mostly in Saudi Riyals.

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b) Fair value and cash flow interest rate risk

Fair value and cash flow interest rate risk are the exposures to various risks related to the effect of fluctuations in market interest rates on the financial position and cash flows of the Fund, and the Fund entered into a "Sharia Compliant Hedging Agreement" with Al-Rajhi Bank to fix the profit margin of the facilities used in the first additional offering for the amount of SAR 397.5 million at a fixed rate of 4.44%. The purpose of the hedging facility is to protect the Fund from rate fluctuations during the remaining tenor of this facility, starting from September 1, 2021 until September 7, 2025 (Note 12).

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 counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Fund is exposed to credit risk in respect of its receivables from lessees under operating leases, investment at fair value through profit or loss, cash and cash equivalents, due from related parties and certain other receivable balances.

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 June 30, 2022	Book value	Less than one year	More than one year
<u>Non-derivative financial liabilities</u>			
Credit facilities	746,975,058	9,475,058	737,500,000
Due to related parties	4,460,076	3,934,576	525,500
Lease liabilities	15,621,118	1,579,000	14,042,118
Accrued expenses and other credit balances	40,629,866	24,531,848	16,098,018
	807,686,118	39,520,482	768,165,636
As at December 31, 2021	Book value	Less than one year	More than one year
<u>Non-derivative financial liabilities</u>			
Credit facilities	745,921,994	8,421,994	737,500,000
Due to related parties	5,644,519	5,119,019	525,500
Lease liabilities	16,379,505	1,165,321	15,214,184
Accrued expenses and other credit balances	68,867,115	52,769,097	16,098,018
	836,813,133	67,475,431	769,337,702

ALKHABEER REIT FUND

(Managed by Alkhabeer Capital Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022**

(Expressed in Saudi Riyals)

15. 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.

	Book value		Fair Value			
	Amortized	Fair	Level	Level	Level	Total
	Cost	Value	(1)	(2)	(3)	
<u>As at June 30, 2022</u>						
<u>Financial Assets</u>						
Cash at banks	19,871,566	-	-	-	-	19,871,566
Account receivables	17,015,765	-	-	-	-	17,015,765
Prepaid expenses and other debit balances	11,607,574	-	-	-	-	11,607,574
Due from a related party	18,781	-	-	-	-	18,781
	48,513,686	-	-	-	-	48,513,686
<u>Financial Liabilities</u>						
Credit facilities	746,975,058	-	-	-	-	746,975,058
Due to related parties	4,460,076	-	-	-	-	4,460,076
Lease liability	15,621,118	-	-	-	-	15,621,118
Accrued expenses and other credit balances	40,629,866	-	-	-	-	40,629,866
	807,686,118	-	-	-	-	807,686,118
	Book value		Fair Value			
	Amortized	Fair	Level	Level	Level	Total
	Cost	Value	(1)	(2)	(3)	
<u>As at December 31, 2021</u>						
<u>Financial Assets</u>						
Cash at banks	50,968,681	-	-	-	-	50,968,681
Account receivables	21,981,126	-	-	-	-	21,981,126
Prepaid expenses and other debit balances	14,984,081	-	-	-	-	14,984,081
Due from a related party	18,781	-	-	-	-	18,781
	87,952,669	-	-	-	-	87,952,669
<u>Financial Liabilities</u>						
Credit facilities	745,921,994	-	-	-	-	745,921,994
Due to related parties	5,644,519	-	-	-	-	5,644,519
Lease liability	16,379,505	-	-	-	-	16,379,505
Accrued expenses and other credit balances	68,867,115	-	-	-	-	68,867,115
	836,813,133	-	-	-	-	836,813,133

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

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(Expressed in Saudi Riyals)

16. 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's management under one sector, thus, no separate information is required.

17. IMPACT OF COVID-19

The existence of novel coronavirus (COVID-19) was confirmed in early 2020 and has spread across multiple geographies, causing disruptions to businesses and economic activity. In response to the spread of COVID-19 and its resulting disruptions to the social and economic activities, the Fund's management has assigned a task force to assess and monitor the possible impact on its business in Saudi Arabia and other geographies where Fund operates. The management has also taken a series of preventive measures to ensure the health and safety of its employees, customers and wider community as well as to ensure the continuity of its operations. Since the fund achieved positive results during the 2021 pandemic period, and consequently management believes that COVID-19 had no material impact on the reported financial position and results for the period ended June 30, 2022.

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 period ended June 30, 2021. Further, management is monitoring and keeping an eye on the situation through their task force.

18. SUBSEQUENT EVENTS

On July 31, 2022, the Fund Board of Directors approved the payment of dividends for the period from April 1, 2022 to June 30, 2022, at an amount of SAR 0.125 per unit and a total of SAR 17.626 million to unitholders.

19. APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements have been approved by the Funds Board of Directors on Muharam 19, 1444H (August 17, 2022).