ALKHABEER REIT FUND

FINANCIAL STATEMENTS

FOR THE PERIOD FROM 16 DECEMBER 2018 TO 31 DECEMBER 2019

CONTENTS

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INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALKHABEER REIT FUND

Opinion

We have audited the financial statements of AlKhabeer REIT Fund (the "Fund"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in net assets and statement of cash flows for the period then ended, and 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 31 December 2019, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs that are endorsed in KSA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of investment properties	
As at 31 December 2019, the carrying value of investment properties held by the Fund amounted to SR 907.4 million.	Our audit procedures in response to the assessed risk of material misstatement in valuation of investment properties comprised of:
Investment property is measured initially at cost including transaction costs. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and impairment losses, if any. However, the fair value of the investment property is disclosed along with its impact on net assets per unit.	• 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;

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
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. 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. 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. Refer to notes 5 and 7 to the financial statements for significant judgements and assumptions applied in the determination of the recoverable amounts of the investment properties and note 4 for the details of related accounting policies.	• Assessed the Fund Manager's determination of the following: ○ The factors considered by the Fund in impairment indicator assessment, and ○ The basis used for the identification of cash generating units ('CGU'), which is the level at which recoverable amounts are determined. • 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 ('VIU'). • 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 CGU with its carrying value. • Evaluated the financial statement disclosures, including disclosures of key assumptions and judgements.

Other information included in the Fund's 2019 Annual Report

Other information consists of the information included in the Fund's 2019 Annual Report, other than the financial statements and our auditor's report thereon. Fund Board is responsible for the other information. The Fund's 2019 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.

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

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INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALKHABEER REIT FUND (continued)

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs that are endorsed in KSA, and the applicable provisions of the Real Estate Investment Traded Funds Regulations that are issued by the Board of the Capital Market Authority, and the Fund's terms and conditions, and for such internal control as Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management 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 management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- 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 controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALKHABEER REIT FUND (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)
We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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 of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No.356

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

28 April 2020
5 Ramadan 1441H

Jeddah

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the period from 16 December 2018 to 31 December 2019

	Note	*For the period from 16 December 2018 to 31 December 2019 SR*
INCOME		
Rental income	7	**72,181,028**
		72,181,028
OPERATING EXPENSES		
Properties management expenses		**1,536,066**
Custody and administration fees	6 & 12	**324,008**
Management fee	6 & 12	**3,720,151**
Depreciation	7	**20,927,846**
Other		**2,971,960**
TOTAL OPERATING EXPENSES		**29,480,031**
OPERATING PROFIT		**42,700,997**
NON-OPERATING EXPENSES		
Finance costs		**15,719,892**
Impairment allowance against receivables		**641,328**
Impairment of investment properties	7	**67,266,071**
Establishment expenses		**23,447,881**
TOTAL NON-OPERATING EXPENSES		**107,075,172**
LOSS FOR THE PERIOD		**(64,374,175)**
Other comprehensive income		**-**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(64,374,175)**

The attached notes 1 to 19 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	*31 December 2019* *SR*
ASSETS		
Investment properties	7	**907,395,991**
Rent and other receivables and prepayments	8	**29,439,352**
Cash at banks		**19,268,556**
Total assets		**956,103,899**
LIABILITIES		
Bank loan	9	**347,115,542**
Lease obligations		**17,709,224**
Advances and security deposit	10	**16,367,518**
Accrued expenses and other payables	11	**407,589**
Due to related parties	12	**2,758,797**
Total liabilities		**384,358,670**
Net assets attributable to the unitholders		**571,745,229**
Units in issue		**66,442,386**
Net assets value per unit Saudi Riyals (considering investment properties at cost)	7	**8.6051**
Net assets value per unit Saudi Riyals (considering investment properties at fair value)	7	**9.0357**

The attached notes 1 to 19 form part of these financial statements.

STATEMENT OF CHANGES IN NET ASSETS

For the period from 16 December 2018 to 31 December 2019

	Note	*For the period from 16 December 2018 to 31 December 2019 SR*
CASH PROCEEDS FROM INITIAL SUBSCRIPTION OF UNITS		**237,544,860**
UNITS ISSUED IN KIND AGAINST INVESTMENT PROPERTIES		**426,879,000**
Dividends	16	**(28,304,456)**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(64,374,175)**
NET ASSETS AT THE END OF THE PERIOD		**571,745,229**

The attached notes 1 to 19 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the period from 16 December 2018 to 31 December 2019

	Note	*For the period from 16 December 2018 to 31 December 2019* SR
OPERATING ACTIVITIES		
Loss for the period		**(64,374,175)**
Adjustment for:		
Depreciation	7	**20,927,846**
Impairment allowance against receivables	8	**641,328**
Impairment of investment properties	7	**67,266,071**
Finance cost		**15,719,892**
		40,180,962
Changes in operating assets and liabilities:		
Investment properties		**(549,578,500)**
Rent and other receivables and prepayments		**(30,080,680)**
Advances and security deposit		**16,367,518**
Accrued expenses and other payables		**407,589**
Due to related parties		**2,758,797**
Cash used in operations		**(519,944,314)**
Finance cost paid		**(15,564,076)**
Net cash used in operating activities		**(535,508,390)**
FINANCING ACTIVITIES		
Proceeds from a bank loan		**347,115,542**
Proceeds from initial subscription of units		**237,544,860**
Dividend distributed to unitholders		**(28,304,456)**
Payment against lease obligations		**(1,579,000)**
Net cash from financing activities		**554,776,946**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**19,268,556**
SUPPLEMENTARY NON-CASH INFORMATION		
Units issued in kind against investment properties		**426,879,000**

The attached notes 1 to 19 form part of these financial statements.

1 NATURE OF THE FUND

Alkhabeer REIT Fund (the "Fund") is a closed-ended Shariah compliant real estate investment traded fund, established on 16 December 2018 and managed by Alkhabeer Capital ("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 percent 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 (7 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 BASIS OF PREPARATION

As per the terms and conditions of the Fund, the fiscal year of the Fund is from 1 January to 31 December. As the Fund commenced operations on 16 December 2018 the first fiscal period is from 16 December 2018 to 31 December 2019. As such the period covered by these financial statements is from 16 December 2018 to 31 December 2019. As this is the first set of financial statements of the Fund since its inception, no comparative information is presented. The Fund presents its statement of financial position in order of liquidity.

2.1 Statement of compliance

These financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards "IFRS" that are endorsed in Kingdom of Saudi Arabia ("KSA"), and other standards and pronouncements that are endorsed by Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred here in as "IFRSs that are endorsed in KSA").

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention using the accrual basis of accounting and the going concern assumption.

3 REGULATING 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.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted for the preparation of these financial statements are as follows:

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

Financial assets
International Financial Reporting Standard 9 ("Financial Instruments") ("IFRS 9") contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through statement of profit or loss ("FVTPL"). This classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

On initial recognition, a financial asset is classified as AC, FVOCI or FVTPL.

The Fund's financial assets consist of cash at banks, rental income receivable and other receivables.

Financial asset at amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Financial asset at FVOCI
Debt instruments:
A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Equity instruments:
On initial recognition, for an equity investment that is not held for trading, the Fund may irrevocably elect to present subsequent changes in fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

Financial Asset at FVTPL
All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Fund may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Fund changes its business model for managing financial assets.

Business model assessment
The Fund's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition
Financial assets
The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in statement of profit or loss and other comprehensive income.

In transactions in which the Fund neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Fund continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as borrowings, payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs.

The Fund's financial liabilities include bank loan, security deposit and other payables.

Subsequent measurement
After initial recognition, the financial liabilities are subsequently measured at amortised cost using the effective profit rate ("EPR") method. Gains and losses as a result of unwinding of profit cost through EPR amortization process and on de-recognition of financial liabilities are recognized in the statement of profit or loss and other comprehensive income.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortisation is included as finance costs in the statement of profit or loss and other comprehensive income. This category generally applies to borrowings including long term payables.

Impairment
IFRS 9 requires the Fund to record an allowance for ECLs for all loans and receivables not held at fair value through profit or loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive. The shortfall is then discounted at an approximation to the asset's original effective profit rate.

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

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

The principal or the most advantageous market must be accessible by the Fund.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

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

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

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

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

For the purpose of fair value disclosures, the Management has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

For securities that are traded in organized financial markets, the fair value is determined by reference to exchange quoted market bid prices at the close of the business on the statement of financial position reporting date.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is based on the expected cash flows or the underlying Net Asset Value ("NAV") which is reflective of the fair value of these securities.

The fair value of investment in land, which approximates its realizable value, is measured using valuation techniques including the replacement cost basis, comparable market prices and discounted cash flow ("DCF") based on income approach.

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

Investment properties
Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties
Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the investment property, including brokerage fees. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. The estimated useful lives of the principal classes of assets are as follows:

Buildings	40 years

Freehold land is not depreciated

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset would result in either gains or losses at the retirement or disposal of investment property.

Cash and cash equivalents
Cash and cash equivalents of the Fund include bank balances and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Leases
The Fund assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Fund as a lessee
The Fund applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Fund recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right of use assets
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.

Right-of-use assets are subject to impairment.

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 the lease, if the lease term reflects the Fund exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Fund uses its incremental borrowing rate at the lease commencement date because the profit 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 profit 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 lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Short-term leases and leases of low-value assets

The Fund applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Fund as a lessor

Leases in which the Fund does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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.

Dividends

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

Accrued expenses and other payables

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether or not billed to the Fund.

Provision

A provision is recognized when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provision is not recognized for future operating loss.

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.

Revenue recognition

Rental income from investment properties is recognized on an accrual basis in accordance with the terms of the corresponding contract. Capital gain resulting from the sale of investment property is recognized upon the execution of the corresponding sale contract.

5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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.

Fair value measurement of financial instruments

When the fairs 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.

5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Useful lives of investment properties

The fund manager determines the estimated useful lives of investment properties for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Fund manager reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted 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 fair value less cost to sell and 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.

6 MANAGEMENT FEE AND OTHER EXPENSES

Management fee

The Fund Manager is entitled to a management fee equal to 9% per annum (as set out in the Fund's terms and conditions) of the net collected rental proceeds or 0.75% per annum of the NAV based on last valuation, whichever is lower.

Custody fee

The Custodian is entitled to a fee equal to 0.025% per annum (as set out in the Fund's terms and conditions) of the total assets based on the last audited financial statements, with a minimum of SR 200,000 annually and an initial one-time fee of SR 50,000, calculated and accrued on each valuation day (reporting date).

Administration fee

The Administrator is entitled to a fee equal to 0.025% per annum (as set out in the Fund's terms and conditions) of the NAV, calculated and accrued on each valuation day (reporting date).

7 INVESTMENT PROPERTIES

(i) Movement in investment properties during the period ended 31 December 2019 is as follows:

	31 December 2019 SR
Acquisition of properties during the period	**995,589,908**
Depreciation	**(20,927,846)**
Impairment provision	**(67,266,071)**
Net book value at the end of the period	**907,395,991**

7 INVESTMENT PROPERTIES (continued)

(ii) The investment properties comprise of the following properties:

Property Name	***Type***	***Location***	***Cost of Acquisition SR***	***Depreciation***	***Impairment***	***Net Book Value SR***	***Fair Value SR***
Homeworks Center	Commercial	Riyadh	79,950,000	(598,750)	-	79,351,250	83,575,000
Palazzo Center	Commercial	Riyadh	95,632,500	(1,180,813)	-	94,451,687	97,445,000
Almalga Residential Compound	Residential	Riyadh	314,000,000	(6,028,023)	(67,266,071)	240,705,906	240,705,906
Gallery Mall	Commercial	Tabuk	178,007,408	(8,941,011)	-	169,066,397	183,430,000
Elite Commercial Center	Commercial	Jeddah	164,000,000	(2,471,408)	-	161,528,592	166,830,000
Ahlan Court	Commercial	Jeddah	71,750,000	(350,642)	-	71,399,358	72,850,000
Bin II Commercial Center	Commercial	Jeddah	92,250,000	(1,357,199)	-	90,892,801	91,170,000
			995,589,908	**(20,927,846)**	**(67,266,071)**	**907,395,991**	**936,005,906**

(iii) The net asset value and per unit value of the Fund would have been as follows:

	31 December 2019 SR
Net asset value (considering investment properties at cost)	**571,745,229**
Unrealised gain based on fair value of investment properties	**28,609,915**
Net assets value at fair value	**600,355,144**
Net assets value per unit, at cost	**8.6051**
Impact on net assets value per unit using the fair value of investment properties	**0.4306**
Net assets value per unit at fair value	**9.0357**

(iv) Alkhabeer Capital, the Fund Manager, has formed a Special Purpose Vehicle ("SPV"), Awal Almalga Real Estate Company (the "SPV"), registered under Commercial Registration No. 1010893802 dated 19 Shawwal 1438H (corresponding to 13 July 2017). The primary objective of the SPV is to retain and register real estate assets related to real estate funds in its name.

(v) The title deed of all the investment properties, except for Gallery Mall (as it is a right of use under operating lease arrangement) is registered in the name of the SPV. The SPV has confirmed that it is holding the investment properties for and on behalf of the Fund. Since the Fund is the beneficial owner of these properties, the investment properties have been recorded in the financial statements.

(vi) In accordance with article 21 of the Real Estate Investment Funds Regulations issued by Capital Market Authority (CMA), Saudi Arabia, the Fund manager has evaluated the fair value of the Fund's investment properties based on two valuations prepared by the independent valuators, except for Almalga Residential Compound for which management has made further adjustments to better reflect the fair value of investment property in line with the revised future cashflows expected against the aforementioned property. However, in accordance with IFRSs that are endorsed in KSA, investment in real estate properties have been carried at cost less accumulated depreciation and impairment (if any) in these financial statements.

(vii) The valuation of the investment properties as at 31 December 2019 is carried out by White Cubes and Abaad, which are accredited valuers by Saudi Authority for Accredited Valuers (TAQEEM).

7 INVESTMENT PROPERTIES (continued)

(viii) Gallery mall value includes the right of use asset relating to lease. The net amount at 31 December 2019 was SR 18,171,419 which is netted of against accumulated depreciation of SR 960,989, as at 31 December 2019.

(ix) Rental income earned from the investment properties during the period was SR 72.2 million. Direct expenses incurred in relation to the investment properties that generated rental income during the period was SR 1.8 million. During the period and as at the period-end, no restrictions on the realizability of investment property or the remittance of income and proceeds of disposal were present. The Fund does not have any contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

(x) The cost of acquisition includes cost of land and buildings including any transactions costs. The value of the land at acquisition and 31 December 2019 was SR 301 million.

(xi) The estimated useful life of the buildings is judged to be 40 years except for any right of use asset, whose useful life is determined by length of the underlying contract.

(xii) Key assumptions used in determining the fair value of the investment properties as at 31 December 2019 are as follows:

Property Name	*Valuation methods*	*Discount rate %*	*Terminal rate %*
Homeworks Center	Discounted Cash Flow	8.00 – 9.00	7.60
Palazzo Center	Discounted Cash Flow & Income Approach	8.25 – 10.50	7.20
Almalga Residential Compound	Discounted Cash Flow & Income Approach	8.50 – 10.50	8.00
Gallery Mall	Discounted Cash Flow	11.00 – 12.25	12.70
Elite Commercial Center	Discounted Cash Flow & Income Approach	9.50 – 11.50	9.80
Ahlan Court	Discounted Cash Flow & Income Approach	8.50 – 11.25	9.50
Bin II Commercial Center	Discounted Cash Flow & Income Approach	9.50 – 12.00	10.30

(xiii) An increase/decrease of 5% in underlying assumptions will result in an increase/decrease in the fair values of the investment properties by an amount of SR 46.8 million.

8 RENT AND OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2019 SR
Rental income receivable, net (note a below)	**25,898,743**
Prepayments	**1,596,733**
VAT receivables	**1,923,876**
Others	**20,000**
	29,439,352

a. The rental income receivable is recorded as the net amount after the recording of impairment allowance against rental receivables amounting to SR 641,328.

9 BANK LOAN

The Fund has obtained a loan with a local bank in the normal course of its business and at commercial terms (SIBOR 6M + 2.25% per annum) maturing over a period of 5 years. The loan is secured against future rental collections.

10 ADVANCES AND SECURITY DEPOSIT

	31 December 2019 *SR*
Security deposit	**7,732,368**
Unearned Advance rent	**8,365,650**
Advance rent received	**269,500**
	16,367,518

11 ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables at 31 December 2019 comprise of the following:

	31 December 2019 *SR*
Accrued professional fees	**180,073**
Accrued property management expenses	**123,566**
Valuation fees payable	**86,100**
Other	**17,850**
	407,589

12 RELATED PARTY TRANSACTIONS AND BALANCES

Significant related party transactions for the period from 16 December 2018 to 31 December 2019 are summarized below:

Name of related party	*Nature of transaction*	*Amounts of transactions For the period from 16 December 2018 to 31 December 2019 SR*	*Balance (payable)/receivable 31 December 2019 SR*
Alkhabeer Capital (Fund Manager)	Expenses incurred by the Fund Manager on behalf of the Fund	**19,370,580**	**-**
	Management fees	**3,720,151**	**(2,392,789)**
	Administration fees	**124,008**	**(124,008)**
Alinma Investment Company	Custody fees	**200,000**	**(200,000)**
Fund Board	Aggregate compensation to Independent Fund Board Members	**42,000**	**(42,000)**
Unitholders	Rental income	**47,570,091**	**18,335,521**

a) As at 31 December 2019, the bank accounts of the Fund, amounting to SR 3 thousand and SR 19.3 million are in the name of the Fund Manager and the SPV respectively, acting on behalf of the Fund.

b) At 31 December 2019, the Fund Manager had an investment in the Fund of 4,894,450 units valued at SR 53.3 million.

13 COMMITMENT AND CONTINGENCIES

As at 31 December 2019, the Fund has entered into an profit rate swap of notional amount SR 340 million with a fixed rate of 4.69%. The swap contract will become effective on 31 January 2020. The swap contract is intended to manage the profit rate cash flows risk of the Fund.

14 RISK MANAGEMENT

The Fund's objective in managing risk is the creation and protection of unit holder value. Risk is inherent in the Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Fund's continuing profitability. The Fund is exposed to market risk (which includes commission rate risk and currency risk), credit risk and liquidity risk arising from the financial instruments it holds. Furthermore, the fund is exposed to operational risk.

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

Monitoring and controlling risk is primarily set up to be performed based on the limits established by the Fund Board. The Fund has investment guidelines that set out its overall business strategies, its tolerance of risk and its general risk management philosophy and is obliged to take appropriate actions.

Commission rate risk
Commission rate risk arises from the possibility that changes in market commission rates will affect future profitability or the fair value of the financial instruments. The Fund is not exposed to significant commission rate risk due to profit rate swap.

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 did not undertake any transactions in foreign currencies during the period. Accordingly, the Fund is not exposed to foreign currency risk.

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 Fund seeks to manage credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Fund is exposed to credit risk on bank balances and rent receivables. As at 31 December 2019, the maximum exposure to credit risk of the Fund is the carrying value as disclosed in the statement of financial position.

Liquidity risk
Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

The liquidity needs are monitored on a regular basis and the Fund Manager ensures that sufficient funds are available to meet any commitments as they arise.

14 RISK MANAGEMENT (continued)

Liquidity risk (continued)
Maturity profile of discounted assets and liabilities are as follows:

31 December 2019	Less than 1 year SR	More than 1 year SR	No fixed maturity SR	Total SR
Assets				
Investment properties	-	-	907,395,991	**907,395,991**
Rent and other receivables and prepayments	29,439,352	-	-	**29,439,352**
Cash at bank	19,268,556	-	-	**19,268,556**
Total assets	**48,707,908**	-	**907,395,991**	**956,103,899**
Liabilities				
Bank loan	7,115,542	340,000,000	-	**347,115,542**
Lease obligations	1,423,184	16,286,040	-	**17,709,224**
Advances and security deposit	269,500	16,098,018	-	**16,367,518**
Accrued expenses and other payables	407,589	-	-	**407,589**
Due to related parties	2,758,797	-	-	**2,758,797**
Total liabilities	**11,974,612**	**372,384,058**	-	**384,358,670**

Operational risk
Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally at the Fund's service provider, and from external factors other than credit, liquidity, market and currency risks such as those arising from the legal and regulatory requirements.

The Fund's objective is to manage operational risk so as to balance the limiting of financial losses and damage to its reputation while achieving its investment objective of generating returns to investors.

15 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued but not yet effective, up to the reporting date are disclosed below. The Fund intends to adopt these standards, when they become effective.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed. These amendments are not applicable to the Fund.

15 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied prospectively. Early application is permitted and must be disclosed. The Fund is not expecting any change due to adoption of these amendments.

Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). The Fund has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is uncertainty over the timing and the methods of transition. The Fund anticipates that IBOR reform will have operational, risk management and accounting impacts across all of its business lines. The Fund's management is looking forward to identifying operational risks arising from IBOR reform.

16 DIVIDENDS

The Fund Board approved to pay quarterly dividend twice during the period ended 31 December 2019. The details are as follows:

Date of approval	*Amount per unit SR*	*Total SR*
31 July 2019	0.226	15,015,979.20
31 October 2019	0.20	13,288,477.20

On 28 January 2020, the Fund Board approved to pay a dividend, for the period from 31 October 2019 to 31 December 2019, of SR 0.20 per unit totaling to SR 13.29 million to its unitholders. The dividend has been paid subsequent to the period end and accordingly has not been accounted for in the financial statements.

17 LAST VALUATION DAY

The last valuation day for the period was 31 December 2019.

18 SUBSEQUENT EVENT

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact. The outbreak of Covid-19 has had an impact on demand for oil and petroleum products. Recent global developments in March 2020 have caused further volatility in commodity markets.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorization of these consolidated financial statements. These developments could impact our future financial results, cash flows and financial condition.

19 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorized for issue by the Fund Board on 27 April 2020 (4 Ramadan 1441H).