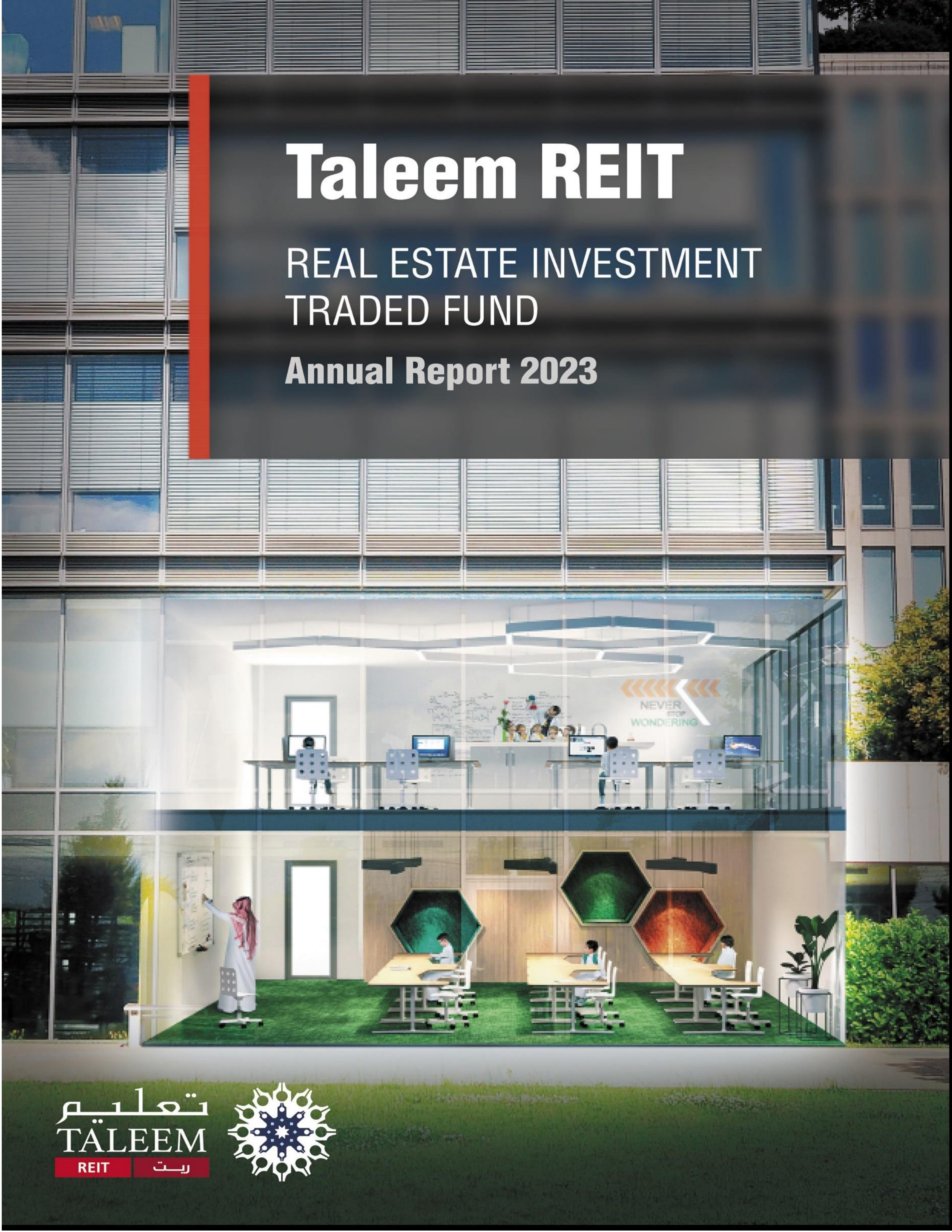
Taleem REIT

REAL ESTATE INVESTMENT TRADED FUND

Annual Report 2023



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Taleem REIT Fund Overview

Taleem REIT Fund (the "Fund") is a shariah-compliant, closed and publicly traded real estate investment Fund that is established under Real Estate Investment Funds Regulations Instructions issued by the Capital Market Authority ("CMA").

The Fund is considered to be the first thematic fund that was listed on the Saudi Stock Exchange ("Tadawul") in mid-2017. The Fund aims to invest in real estate assets in the educational segment, which is one of the basic and most stable sectors to invest inside and outside of Kingdom of Saudi Arabia. As of 31 December 2023, 100% (7 properties) of Fund's real estate assets are freehold properties and the Fund has zero investments in leasehold properties.

The Fund was established by acquiring real estate asset of Al-Tarbiyah Al-Islamiyah Schools, which is one of the oldest and amongst the most prestigious schools in the city of Riyadh. The Fund has a long-term triple net binding lease contract of 27 years with the operator of this school. Further, in continuation with implementation of the Fund's strategy, during 2018, the Fund acquired another real estate asset which is leased to Al-Rowad International Schools for a period of 30 years (starting 1 January 2012) under a triple net binding lease contract. This school is considered as one of the most prestigious schools in the Kingdom of Saudi Arabia. Further, during mid-2020, the Fund acquired real estate asset of Al-Ghad National Schools located in King Abdullah District, Riyadh. This school is wholly-owned and operated by National Company for Learning and Education. The real estate property is leased to the school for a period of 10 years, which is automatically renewed for additional three five-year periods (total lease term of 25 years); unless the lessee elects to not renew by serving a 5-year advance notice period to the lessor.

Demonstrating its commitment to expanding capacity, the Taleem REIT Fund undertook development of a new building on existing Tarbiah Islamiah School in 2022. The development of this new building was completed in 2023 and successfully handed over to the tenant, allowing them to begin school operations for the academic year. This expansion ensures the school can accommodate a growing student body and contributes to the Fund's long-term success. Additionally, the Fund acquired a portfolio of four properties in 2022, comprising three kindergartens in Riyadh and a K12 school in Dammam. These schools are leased to Al Khaleej Training and Education Company (average remaining lease term of 17.6 years).

All seven long-term lease contracts have periodic escalation clauses and due to their long-term nature, they provide certainty, transparency and predictability in respect of future cashflows. Accordingly, the Fund features a quarterly dividend distribution policy, which is well-liked amongst the investor community and hence reflects positively on Fund's unit price.

Taleem REIT Fund is managed by Saudi Fransi Capital ("Fund Manager") a leading financial services provider offering investment banking, asset management, debt and equity research, institutional sales trading, and local and global securities brokerage. Saudi Fransi Capital is the investment arm of Banque Saudi Fransi, where it was trademarked with a paid-up capital of 500 million Saudi Riyals and is a closed joint stock company in the Kingdom of Saudi Arabia. It is licensed by the Capital Market Authority with license 11153-37 to conduct a wide range of investment activities include dealing, arranging, managing, advising and custody of securities business.

Assets in which fund is aiming to invest in:

The Fund aims to form an investment portfolio linked to the education and training sector in the Kingdom of Saudi Arabia and abroad, capable of achieving periodic rental income which will generate returns on the invested capital in line with the Fund's investment strategy. The Fund can also invest in real estate development projects, provided it does not invest in white lands.

2023 Fund Performance

Key Financial Performance as at 31 December 2023

Total Revenue

66,397,361 SAR

Total Expense

30,098,856 SAR

Net Income

36,298,505 SAR

Total Dividends

32,640,000 SAR

Price per unit

10.24 – 12.10 SAR

Occupancy Rate

100 %

Net Asset Value

549,808,260 SAR

Annualized Dividend Yield

5.65 %

Percentage of uncollected revenues from total revenues

15.03 %

Ratio of non-cash expenditures from the fund's

7.13 %

Leased real-estate to the total owned real estate	Unleased real-estate to the total owned real estate
100.00%	0.00%

percentage of rent amount for each asset	total rent of the fund's assets
Tarbiya Islamya Schools (TIS)	49.51%
Al Rowad International Schools (RIS)	24.06%
Al-Ghad National Schools (GNS)	9.03%
Al-Malqa School (AMS)	3.91%
Al - Ishraq school (AES)	3.48%
Al-Yasmeen School	4.10%
Hitten School (Hitten)	5.91%
Total rent of the fund's assets	66,397,361.00

Performance of the fund during the last (3) financial years or since the inception (SAR)

	2023	2022	2021
Year-End NAV	549,808,260	546,149,755	546,646,423
The fund net assets value per unit at the end of each fiscal year	11.5012	11.2583	11.0005
Highest net asset value of the fund per unit for each fiscal year.	11.5012	11.2583	11.0005
Lowest net asset value of the fund per unit for each fiscal year.	10.9805	11.2018	10.7169
Income distribution per unit, if any	0.64	0.66	0.52
The number of units issued at the end of each fiscal year.	51,000,000	51,000,000	51,000,000
Dividend per Unit	0.64	0.66	0.52
the percentage of the fund's costs to the fund's total assets value	3.23%	1.98%	1.73%
Expense Ratio	3.23%	1.98%	1.73%
Total Return per annum*	7.84%	8.34%	7.97%

Cumulative Total Return Result of comparing the Fund's Benchmark to the fund's performance number of units	NA	NA	NA
Percentage of borrowed Assets in the total asset Value, their period for Fulfilment and due date	34.63% June 2027	34.60% June 2027	14.27% June 2027
Cumulative return on the unit (since inception)	53.69%	44.86%	45.69%

***Total return is calculated based on fair value NAV and dividend payments for each fiscal year.**

1. **Previous Performance record**

Total Annualized Return for 1 Year, 3 Years, 5 Years, and Since Inception

	1 Year	3 Years	5 Years	Since Inception
Total Return	7.84%	24.85%	39.91%	53.69%

Total Annual Returns for Each of the Past 10 Years or Since Inception

	2023	2022	2021	2020	2019	2018	2017	Since Inception
Total return	7.84%	8.34%	7.97%	7.05%	7.37%	7.24%	4.58%	53.69%

Note: The Fund was incorporated during the year 2017.

Description of the fund's benchmark:

NA

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

The education sector in Saudi Arabia is experiencing a period of significant growth. The Kingdom boasts the largest school-age population in the GCC, with over 7.5 million school-age children, of which approximately 6.6 million are currently enrolled in schools. This number is projected to surge by 1.2 million by 2030, driven by both a rising Saudi population and an influx of expats. To keep pace with this demand, estimates suggest an additional 500 schools or SAR 50 billion in investment will be required.

Further fueling this growth is the under-penetration of the private education sector. Currently, Saudi Arabia has the lowest private school penetration rate in the GCC, hovering at just 16.5%. This presents a remarkable opportunity for expansion. Surveys by independent bodies reveal a strong preference for private education among Saudi citizens and residents. This aligns well with Vision 2030's objective of achieving a 25% private school enrollment rate by 2030, indicating a substantial market shift and a growing landscape for private school operators in the Kingdom. This combination of demographic trends, investment needs, and policy goals underscores the dynamic growth potential within Saudi Arabia's education sector.

Riyadh, as the capital of Saudi Arabia, plays a pivotal role in driving the increased demand within the education sector. With Vision 2030 aiming to enhance investments and job opportunities in Riyadh, the city's population is projected to grow substantially, reaching 15 million by 2030 compared to 7.5 million residents in 2021. This population surge, coupled with policy incentives such as higher budget allocations for education, favorable land and building lease terms for the private sector, and new investment opportunities through public-private partnerships (PPP), is expected to support the growth of the education sector over the medium to long term. Conservative estimates indicate an additional need of 100 new schools in Riyadh by 2030, with a large percentage being in the private sector due to (i) higher percentage of private education penetration in Riyadh and (ii) influx of expatriate workers and families.

Taleem REIT has been an early investor in KSA's education sector by acquiring its very first school in 2017. Subsequent to this, six new acquisitions have been made with total AUMs of SAR 859 million. We believe Taleem REIT is well positioned for forthcoming growth in Saudi education sector.

Fund Operations Review

Taleem REIT has reported total revenues of SAR 66.4 million and a net profit of SAR 36.29 million for the year ended 31 December 2023. Total expenses (operating and non-operating) of the Fund amounted to SAR 27.5 million, of which 22.6million for finance charges, SAR 6.3 million relates to depreciation, SAR 3.8 million for management fees, SAR Nil for zakat expense and SAR 0.79 million for Fund related other expenses.

As a result of stable and natural growth of the Fund's assets, total dividends amounting to SAR32.6million were distributed amongst unitholders of the Fund during 2023.

- **Real Estate assets overview:**

Al Tarbiyah Al Islamiyah Schools (Freehold)

It is a school located in Al-Rahmaniya district in Riyadh and leased by Islamic Education Schools Company Limited. The school has been in operations for a period of more than fifty years.

Asset Information

Asset Name	Al Tarbiyah Al Islamiyah Schools
Asset type	Education Building
Location	Riyadh, Ar Rahmaniyyah District
Land Area	45,666.94 m^2
Built-up Area	40,955 m^2
Year constructed and Operated	1384 Hijri corresponding to 1964 Gregorian
Occupancy Rate	100%
Asset Value	SAR 372,000,000

Al-Rowad International School: AIS

The original real estate is a school located in Al-Nuzha district, Riyadh, block No. (232), chart No. (1954 / A) and leased by Al-Rowad International Schools Company. The school started its operations on 01/04/1435 AH corresponding to 1/1/2012 AD.

Asset Information

Asset Name	Al-Rowad International School
Asset type	Education Building
Location	Riyadh, Al Nuzha District
Land Area	30,000 m^2
Built-up Area	48,967 m^2
Year constructed and Operated	1435 Hijri corresponding to 2012 Gregorian
Occupancy Rate	100%
Asset Value	SAR 311,000,000

Al-Ghad National Schools: Al-Ghad

The school located in King Abdullah District on Al-Uruba Street and it is leased by Al-Ghad National Schools.

Asset Information

Asset Name	Al-Ghad National Schools
Asset type	Education Building
Location	Riyadh, King Abdullah District
Land Area	11,282.58 m^2
Built-up Area	17,908.28 m^2
Year constructed and Operated	1441 Hijri corresponding to 2019 Gregorian
Occupancy Rate	100%
Asset Value	SAR 89,000,000

Al Khaleej Schools - Hitten

Asset Information

Asset Name	Hitten School
Asset type	Education Building
Location	Riyadh, Hitten District
Land Area	4,725.57 m^2
Built-up Area	8,178.89 m^2
Year constructed and Operated	1441 Hijri corresponding to 2019 Gregorian
Occupancy Rate	100%
Asset Value	SAR 56,000,000

Al-Khaleej Schools – Al-Narjis

Asset Information

Asset Name	Al Narjis School
Asset type	Education Building
Location	Riyadh, Al Narjis District
Land Area	3,713.65 m^2
Built-up Area	4,792.33 m^2
Year constructed and Operated	1441 Hijri corresponding to 2019 Gregorian
Occupancy Rate	100%
Asset Value	SAR 39,000,000

Al Khaleej Schools – Al-Malqa

Asset Information

Asset Name	Al Malqa School
Asset type	Education Building
Location	Riyadh, AL Malqa District
Land Area	2,985.50 m^2
Built-up Area	5515.57 m^2
Year constructed and Operated	1441 Hijri corresponding to 2019 Gregorian
Occupancy Rate	100%
Asset Value	SAR 37,000,000

Al Khaleej Schools – Al Ishraq – Dammam

Asset Information

Asset Name	Al Ishraq Schools
Asset type	Education Building
Location	Dammam, Al Hamra District
Land Area	8,000 m^2
Built-up Area	8,019 m^2
Year constructed and Operated	1422 Hijri corresponding to 2001 Gregorian
Occupancy Rate	100%
Asset Value	SAR 32,000,000

Any Fundamental or non-Fundamental changes that occurred during the period and which affected the performance of the fund

- Appointment of new Sharia Committee Members.
- Amendments related to the Zakat Collection Rules for Investing in Investment Funds.

RISK ASSESSMENT REPORT

As part of effective risk management policy, the Fund Manager has adopted a four-point framework to ensure risks are appropriately identified and mitigated. The components of framework are as follows: Annual review of Risk Register and Control Matrix, Third Party Risk Management Strategy ("TPRM"), Continuous monitoring and reporting of any non-compliance with the regulations, and Annual monitoring of outstanding external audit recommendations. To address each of these areas, the Fund Manager has adopted policies and/or designated specific departments/staff at SFC to effectively mitigate those risks.

The risk of not having an investment profitability guarantee in the Fund

Not ensuring that the Fund will be able to achieve investment returns or that the returns will be proportional to the Fund's investments. It is possible that the value of the units may decrease or the Fund may lose some or all of its capital. It is not possible to provide a guarantee that the expected or targeted returns of the Fund will be achieved. To reduce these risks, real estate assets are evaluated twice a year by independent valuers, and changes in market conditions are taken into account and actions are taken to protect the value of real estate and investment profitability.

Risks of not fulfilling the relevant regulations

The Fund may become ineligible to be a real estate investment Fund in accordance with Real Estate Investment Funds Regulations and the Real Estate Investment Traded Funds Instructions as issued by the CMA. This can have negative effects on the liquidity of trading in the Fund's units, which may negatively affect the value of its investments. It should be noted that there is no guarantee that the Fund will remain in circulation in the financial market due to the failure to meet the regulatory requirements. To reduce these risks, the Fund Manager follows all the rules and regulations with independent supervision by the Compliance and Compliance Department on all the activities of the Fund.

The risks of changing interest rates and general economic conditions

Changes in economic conditions, including interest rates and inflation, will negatively affect the business and opportunities of the Fund. To reduce these risks, the value and amount of financing is studied, which greatly reduces the risk of interest rates. As of the reporting date, the Fund is not exposed to interest rate risk on account of no utilization of loan facilities.

The nature of the investment risk

There will be no guarantee that the Fund will be able to achieve returns on its investments in a timely manner. There may be no possibility to sell or dispose of its assets, and if it is decided to dispose of it by selling, there may be no possibility to sell it at a price that the Fund Manager believes represents the fair value to it or to be sold within the time frame required by the Fund. To reduce these risks, none of the assets owned by the Fund will be sold until after the appropriate procedures are followed to sell them, according to the market conditions at the time.

Real estate investment risks

The Fund will be affected by the general real estate sector conditions in the Kingdom of Saudi Arabia, which in turn are affected by many factors, including but not limited to, macroeconomic growth, political stability, change in interest rates, supply and demand, financing availability, real estate trends, liquidity, the legal and regulatory environment, and other conditions that may affect the real estate market prices, which in turn is reflected in the value of the Fund's units. To reduce these risks, the Fund Manager follows economic news, regulatory trends and laws that would help the Fund Manager to be proactive in taking the necessary steps to mitigate or reduce the impact of the event as much as possible.

Risks of a decrease in the value of the property

The value of real estate is subject to fluctuations and changes. The change in the indicators of the Saudi economy may lead to a decrease in the market value of the Fund's investments, which in turn may lead to a decrease in the Fund's returns or the liquidation of the Fund. In addition, investments in commercial and residential real estate are exposed to risks that affect the commercial and residential real estate sector in general, including seasonal changes, real estate buyers desire and changes in economic conditions. To reduce these risks, Fund’s assets are evaluated twice a year by independent valuers, and the Fund Manager may use internal valuations for various purposes, including knowing market conditions well to avoid loss.

Risks of tenants being unable to meet their lease obligations

The real estate assets are leased by three tenants. Consequently, the Fund is vulnerable in the event that one of the tenants fails to fulfill its obligations. If one of the tenants fails to pay the payments due on a real estate or real estate assets, this may limit the ability of the Fund Manager to re-rent or rent the property on satisfactory terms. The real estate assets are leased by schools that have an operating profitability that enables them to commit to paying the rental amounts on a regular basis, and this is ultimately due to the Fund Manager’s due diligence of operator’s ability to make contractual payments.

The risks of not occupying the real estate for long periods

When any of the real estate units becomes vacant for long periods as a result of the expiry of the lease contract without renewing it, the inability of the tenant to legally complete the lease, the tenant has declared bankruptcy, cancellation or non-renewal of the contract or other reasons, the Fund may suffer from a decrease In returns, and hence lower periodic dividends for investors. To reduce these risks, high occupancy rates must be maintained, the Fund's properties managed appropriately, the property manager should be followed in the lease operations and find a replacement. The current occupancy rate is 100% for long-term contracts. Prior notice is provided by either party before the contract is terminated so that the Fund manager can find an alternative.

Risks of operating companies or companies specialized in property management

The Fund will use a company or companies specialized in operating and managing real estate assets. On the other hand, the Fund can enter into triple net lease agreement to ensure Fund’s assets are maintained by the operator. Accordingly, any failure, or defect in the level of service provided by the operator or the tenant for any reason will have a direct and negative impact on the performance of the Fund and its financial position, and thus on the unit price. To reduce these risks, the Fund Manager undertakes a thorough analysis to ensure operator has the capacity and ability to maintain assets. This is further verified by period inspections as undertaken by the Fund Manager and/or its affiliates (such as valuators).

Real estate development risks

1. Delay in completing works in a timely manner.
2. Exceeding the specified costs
3. The inability to achieve lease contracts at the expected levels
4. Force majeure resulting from factors outside the control of the fund related in particular to the contracting sector

Note that the fund does not intend to engage in any real estate development project at the present time, but in the event of entering into development projects in the future, the fund will develop a clear and logical plan that includes the necessary studies to avoid any problems.

Risks of the possibility of not being able to renew the lease or re-lease the leased area at the end of the contract period

The Fund depends on its profit on the rental amounts paid by the tenants and accordingly, the financial position of the Fund and the results of operations and cash flow as well as the ability of the Fund to distribute profits may be affected negatively in the event that the Fund is not able to immediately re-rent properties or renew the lease contracts. To reduce these risks, the lease contracts concluded with a prior notice period are included, enabling the Fund to search for an alternative tenant, and the Fund seeks to renew the lease contracts in line with the prevailing market conditions.

Risks of concluding long-term leases

The Fund will enter into long leases with some tenants. These contracts may include increases in the rental value or may not include it. It is expected that the returns of the Fund will decrease when there is an increase in operating costs, inflation rates, change in currency exchange rates, or an increase in real estate prices with the stability of the rental payments. To reduce these risks, these contracts must be based on commercial foundations and future aspirations to avoid losses.

The risks of investing in the educational sector

The Fund's performance will be affected by factors that affect the education sector in general. These factors may include factors related to demand levels, including any economic downturn, restrictions imposed in the educational system in general, revocation of licenses granted to private schools, or any regulations or regulations (including those related to taxes and fees), or factors related to supply levels, including increased supply from private or governmental schools. The education sector is one of the defense sectors and is the least affected by economic conditions. Further, the operators of Fund’s schools’ assets are well-known and have a strong loyal base of students/parents. Hence, the threat from new entrants is deemed to be low.

Risk of pandemics and/or similar situations resulting in lockdowns that might affect tenants’ school operations and their ability to honor lease payments

The Fund owns seven properties that are leased to tenants operating in K12 educational industry. There is a risk that a pandemic or similar situation might result in ‘distance learning model’ whereby tenants’ use of school property might be limited. In such a situation, schools’ financial performance might suffer and accordingly, they might not honor their rental payments on time. The Fund Manager mitigates this risk by ensuring Fund’s interests are protected by way of promissory notes, corporate guarantees or other relevant means in lease contracts. Further, the Fund Manager aims to preserve Fund’s strategic contractual relationships by engaging with all tenants in a timely fashion.

FUND GOVERNANCE

In line with CMA rules and regulation, Taleem REIT Fund Board of Directors supervise and monitor the progress of Fund's performance in line with Fund's terms and conditions. During 2023, the Fund's Board of Directors held two (2) meetings. During these meetings, Fund's performance along with any regulatory and compliance related matters were duly discussed.

Fund Board Meetings

Meeting	Date
Fund Board Meeting 1	16 July 2023
Fund Board Meeting 2	13 December 2023

Summary of Major Decisions

1	Approval of 2022 Financial statements
2	Approval of June 2023 interim financial statements
3	Approvals on dividend payments (four approvals during the year)

Services, commissions, fees, and expenses charged to the Fund throughout the year

There were no instances during which the Fund Manager waived or reduced any fees. The Fund Manager did not receive any soft commissions during the year.

	Amount (SAR)
Management fees	3,825,000
Audit Fee	98,824
Insurance Premiums	73,270
Sharia Board Fee	40,000
Property Valuation Fee	184,144
Legal Fee	14,389
License Fee	7,500
Registrar Fee	420,000
Listing Fee	182,403
Professional Fee	18,000
Consulting Fee	7,200
Custodian fees	276,526
Other expenses	200
Finance cost	22,593,316
Total Expense Ratio *	3.23%

Fund Manager

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The fund's report is available free of charge on request. These reports are also available for free on the fund manager's website, www.sfc.sa, and the Saudi Stock Exchange.

TALEEM REIT FUND

A Closed End Real Estate Investment Traded Fund
(Managed by Saudi Fransi Capital Company)

FINANCIAL STATEMENTS
TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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Independent auditor's report to the Unitholders and Fund Manager of Taleem REIT Fund

Our opinion

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

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at 31 December 2023;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity attributable to the Unitholders for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund and Fund Manager in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), endorsed in the Kingdom of Saudi Arabia (the "Code"), that is relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements.

Our audit approach

Overview

Key Audit Matters	Valuation of investment properties

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where Fund Manager made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Fund, the accounting processes and controls, and the industry in which the Fund operates.

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Independent auditor's report to the Unitholders and Fund Manager of Taleem REIT Fund (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Valuation of investment properties	
As at 31 December 2023, the carrying value of the Fund's investment properties were SR 706.6 million. The investment properties are stated at cost less accumulated depreciation and accumulated impairment, if any. The fair value of the investment properties is provided as a disclosure. For assessing the impairment of investment properties and to provide fair values for the required disclosure, the Fund manager engages two independent external certified property valuers to perform a valuation of the Fund's investment properties on a semi-annual basis. We considered this as a key audit matter as the external valuation used for the impairment assessment and disclosure requires significant assumptions and judgments and the potential impact of impairment if any, could be material to the financial statements. Refer to Note 4 and Note 5 to the accompanying financial statements for accounting policy of investment properties and accounting judgments and Notes 9 and 19 for related disclosure of investment properties.	We have carried out the following audit procedures: • We obtained the valuation reports prepared by the two external valuers as at 31 December 2023 and assessed the recoverable amount of investment properties; • We assessed the qualification and expertise of external valuers appointed by the Fund for the valuation of the investment properties; • We assessed the independence of the external valuers and read their terms of engagement with the Fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work; • We carried out procedures to consider the accuracy of information supplied to the external valuers by Fund Manager; • We involved our experts to assist us in assessing the reasonableness of the valuation methodology, assumptions and estimates used in deriving the valuation, on a sample basis; • We reconciled the average fair value of the investment properties as appearing in Note 18 of the accompanying financial statements to the external valuers' report; and • We assessed the adequacy of disclosures included in the financial statements.

Other information

Fund Manager is responsible for the other information. The other information comprises the information included in the Fund's Annual Report, but does not include the financial statements and our auditor's report thereon, which is expected to be made available to us after the date of this auditor's report.

Independent auditor's report to the Unitholders and Fund Manager of Taleem REIT Fund (continued)

Other information (continued)

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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of Fund Manager and those charged with governance for the financial statements

Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable provisions of the Real Estate Investment Funds Regulations issued by the Capital Market Authority, 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, Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e. the Fund Board, is 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 International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Independent auditor's report to the Unitholders and Fund Manager of Taleem REIT Fund (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- 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 Fund Manager's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Fund Manager.
- Conclude on the appropriateness of Fund Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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.

PricewaterhouseCoopers

Bader I. Benmohareb
License Number 471

31 March 2024

STATEMENT OF FINANCIAL POSITION

	Notes	***As at 31 December 2023 SR***	*As at 31 December 2022 SR*
ASSETS			
Cash and bank balances	6	**6,497,565**	17,747,743
Net investment in finance lease	7	**72,969,677**	34,597,061
Prepayments, receivables and other assets	8	**72,008,122**	60,168,796
Due from a related party	11	**556,636**	-
Investment properties, net	9	**706,601,416**	741,524,490
TOTAL ASSETS		**858,633,416**	854,038,090
LIABILITIES			
Management fee payable	11	**2,217,451**	2,053,139
Accrued expenses and other liabilities	10	**9,293,108**	5,568,028
Provision for zakat	17	**-**	2,659,944
Borrowings from a bank	11, 13	**297,314,597**	297,607,224
TOTAL LIABILITIES		**308,825,156**	307,888,335
Equity attributable to the Unitholders		**549,808,260**	546,149,755
Units in issue - Numbers	12	**51,000,000**	51,000,000
Equity per unit in Saudi Riyals – Book value	19	**10.7806**	10.7088

The accompanying notes from 1 to 25 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	Notes	***For the year ended 31 December 2023 SR***	*For the year ended 31 December 2022 SR*
INCOME			
Income from investment properties	14	**61,580,546**	60,097,281
Finance lease income		**4,816,815**	2,348,973
TOTAL INCOME		**66,397,361**	62,446,254
EXPENSES			
Management fees	11	**(3,825,000)**	(3,825,000)
Custodian fees		**(276,526)**	(271,277)
Other expenses	15	**(795,771)**	(1,485,802)
Finance cost	11, 13	**(22,593,316)**	(11,336,578)
TOTAL EXPENSES		**(27,490,613)**	(16,918,657)
Depreciation expense on investment properties	9	**(6,320,504)**	(5,858,903)
Impairment reversal / (charge) on investment properties	9	**3,732,857**	(3,779,534)
NET INCOME BEFORE ZAKAT FOR THE YEAR		**36,319,101**	35,889,160
Zakat expense	17	**(20,596)**	(2,730,537)
NET INCOME AFTER ZAKAT FOR THE YEAR		**36,298,505**	33,158,623
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**36,298,505**	33,158,623
Earnings per unit			
Weighted average units in issue	12	**51,000,000**	51,000,000
Earnings per unit (basic and diluted)		**0.7117**	0.6501

STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO THE UNITHOLDERS

	For the year ended 31 December 2023 SR	*For the year ended 31 December 2022 SR*
EQUITY ATTRIBUTABLE TO THE UNITHOLDERS AT THE BEGINNING OF THE YEAR	**546,149,755**	546,646,423
CHANGES FROM OPERATIONS		
Total comprehensive income	**36,298,505**	33,158,623
Dividend distributions during the year (note 16)	**(32,640,000)**	(33,655,291)
EQUITY ATTRIBUTABLE TO THE UNITHOLDERS AT THE END OF THE YEAR	**549,808,260**	546,149,755

Transactions in units during the years are summarised as follows:

	For the year ended 31 December 2023 Units	*For the year ended 31 December 2022 Units*
UNITS AT THE BEGINNING AND END OF THE YEAR	**51,000,000**	51,000,000

STATEMENT OF CASH FLOWS

	Notes	*For the year ended 31 December 2023 SR*	*For the year ended 31 December 2022 SR*
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income before zakat for the year		**36,319,101**	35,889,160
Adjustment to reconcile net income to net cash generated from operating activities:			
Depreciation expense on investment properties	9	**6,320,504**	5,858,903
Impairment (reversal) / charge on investment properties	9	**(3,732,857)**	3,779,534
Finance cost	13	**22,593,316**	11,336,578
Operating cash flows before working capital changes		**61,500,064**	56,864,175
Changes in operating assets and liabilities:			
Prepayments, receivables and other assets		**(11,839,326)**	(11,856,454)
Net investment in finance lease, net		**894,459**	358,922
Management fee payable		**164,312**	944,427
Accrued expenses and other liabilities		**3,725,080**	2,783,254
Due from a related party		**(556,636)**	-
Zakat paid	17	**(2,680,540)**	(2,200,664)
Net cash generated from operating activities		**51,207,413**	46,893,660
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment property	9	**(6,931,648)**	(191,972,927)
Net cash used in investing activities		**(6,931,648)**	(191,972,927)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid, net off unclaimed dividends	16	**(32,640,000)**	(33,655,291)
Proceeds from borrowings	13	**-**	200,500,001
Finance cost paid	13	**(21,983,837)**	(9,431,461)
Net cash (used in) / generated from financing activities		**(54,623,837)**	157,413,249
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(10,348,072)**	12,333,982
Cash and cash equivalents at the beginning of the year		**16,845,637**	4,511,655
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	**6,497,565**	16,845,637

Supplemental non-cash information

Derecognition of investment property and transfer to net investment in finance lease	9	**39,267,075**	-

The accompanying notes from 1 to 25 form an integral part of these financial statements.

1. THE FUND AND ITS ACTIVITIES

Taleem REIT Fund (the "REIT' or the "Fund") is a closed-ended Shariah compliant real estate investment traded fund denominated in Saudi Riyals established based on an agreement between Saudi Fransi Capital Company (the "Fund Manager") and investors (the "Unitholders"). The Fund commenced its operations on 4 Ramadan 1438H (corresponding to 30 May 2017) ("Commencement Date"), which is the first day of the listing of Taleem REIT Fund on the Saudi Exchange ("Tadawul"). The address of the Fund Manager is as follows:

Saudi Fransi Capital Company
P.O. Box 23454
Riyadh 11426
Kingdom of Saudi Arabia

The duration of the Fund is ninety-nine years from the date of commencement of operations and can be extended at the sole discretion of the Fund Manager after the approval of the Fund's Board and the Capital Market Authority ("CMA").

The Fund's primary investment objective is to invest in constructed and developed real estate which is qualified to generate periodic return and rental income and to distribute ninety percent of the Fund's net profit as dividends to the unitholders at least annually. The Fund can borrow Shariah compliant funds up to 50% of the value of its total assets.

The terms and conditions of the Fund have been approved by the CMA on 12 Sha'aban 1438H (corresponding to 8 May 2017). The terms and conditions have been updated on 15 Rabi‘ II 1445H (corresponding to 30 October 2023).

The Fund Manager of the Fund is Saudi Fransi Capital Company and KASB Capital is the Custodian for the Fund.

2. REGULATORY AUTHORITY

The Fund is governed by the Real Estate Investment Fund Regulations (REIFR) (the "Regulations") issued by the Board of CMA dated 19/6/1427 corresponding to 15/7/2006 amended by the Board of CMA dated 12/7/1442H corresponding to 24/2/2021G effective from 19/9/1442H (corresponding to 1/5/2021) the New Regulations ("Amended Regulations") published by the CMA on 19/7/1442H (corresponding to 1/3/2021) detailing requirements for all type of real estate funds and traded real estate funds within the Kingdom of Saudi Arabia.

3. BASIS OF PREPARATION

3.1 *Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organisation for Chartered and Professional Accountants ("SOCPA").

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

An analysis in respect of recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 20.

3.2 B*asis of measurement*

These financial statements are prepared under the historical cost convention, using the accrual basis of accounting.

3.3 *Functional and presentation currency*

These financial statements have been presented in Saudi Arabian Riyal ("SR"), which is also the functional currency of the Fund. All financial information presented has been rounded to the nearest Saudi Riyal ("SR").

4. MATERIAL ACCOUNTING POLICIES

The material accounting used in the preparation of these financial statements are stated below. These have been consistently applied to all years presented unless otherwise stated.

Cash and cash equivalents

Cash and cash equivalents include balances maintained with Banque Saudi Fransi. (Parent of the Fund Manager) and overdraft.

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.

Initial recognition

The Fund records financial asset or a financial liability in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument.

At initial recognition, financial assets or financial liabilities are measured at their fair value. In the case of financial assets or financial liabilities not at fair value through profit or loss, its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability is the initial recognition amount. For financial assets and financial liabilities at FVTPL, the transaction costs are expensed in the statement of comprehensive income.

Classification

The Fund classifies its financial assets under the following categories:
- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVTOCI); and
- Amortised cost.

These classifications are on the basis of business model of the Fund for managing the financial assets, and contractual cash flow characteristics.

The Fund measures financial asset at amortised cost when it is within the business model to hold assets in order to collect contractual cash flows, and contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Any income generated from these financial assets is recognized using effective interest method.

For assets measured at fair value, gains and losses will either be recorded in either profit or loss or other comprehensive income. For investments in equity instruments, this will depend on whether the Fund has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Fund classifies all financial liabilities as subsequently measured at amortised cost except for financial liabilities at fair value through profit or loss.

The undiscounted amount of the financial liabilities appearing in statement of financial position approximates their carrying values at the reporting date due to short duration except for borrowings from bank, which have been measured at amortised cost.

Currently cash and cash equivalent, net investment in finance lease, due from a related party, other assets, management fee payable, accrued expenses and other liabilities, borrowing from a bank are carried at amortised cost.

Derecognition of financial instruments

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Fund's statement of financial position) when:
- The rights to receive cash flows from the asset have expired; or
- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition of financial instruments (continued)

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of the Fund’s continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

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

Offsetting of financial instruments

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

Impairment of financial assets

The Fund assesses on a forward-looking basis the Expected Credit Losses (“ECL”) associated with its financial assets, carried at amortised cost, the ECL is based on a 12-month ECL and lifetime ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

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

A fair value measurement of a 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 utilise 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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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; and
- 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 recognised in the financial statements at fair value on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Fund analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund's accounting policies.

The Fund also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

Investment properties

Real estate that is held for capital appreciation or/and rental yields is presented as an investment property.

Investment properties are stated at cost less accumulated depreciation and accumulated impairment, if any. Depreciation is computed using the straight-line method. The cost less residual value of investment property is depreciated over its estimated useful life. Any capital expenditure incurred post-acquisition on investment properties is depreciated on straight line basis over its estimated useful life.

The carrying values of investment properties are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Net investment in finance lease

Net investment in finance lease includes gross investment in finance lease and unearned income.

Gross investments in finance lease include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases.

Impairment of non-financial asset

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

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial asset (continued)

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

A reversal of an impairment loss for an asset is only recognized if there's been a change in the estimates used to calculate the asset's recoverable amount since the last impairment. The asset's carrying amount should be adjusted up to its recoverable amount, essentially undoing the previous impairment loss. However, this adjustment should not exceed what the asset's carrying amount would have been, considering depreciation or amortization, had the impairment not been recognized in the past.

Fund management fee

A fund management fee is payable at an agreed rate with the Fund Manager. The Fund Manager will charge a management fee of 0.75% of the net book value per annum accrued daily and paid annually. During the year 2018, the Fund Board resolved to charge the management fee based on the capital base of SR 510 million of the Fund instead of net assets of the Fund as long as the NAV is above the capital base.

Custody fee

As per the Terms and Conditions of the Fund, the Custodian charges custody fees calculated at an annual rate up to 0.0375% on the assets under custody. 0.03% on all future assets that is paid once at acquisition and SR 30,000 per annum for the Zakat certificate and financial statements. This is accrued daily and paid on annual basis.

Provisions

Provisions are recognised when the Fund has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably. If the effect of time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risk specific to the liability. When discounting is used, the increase in the provision due to passage of time is recognised as finance costs.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured.

Equity value per unit

The equity value per unit as disclosed in the statement of financial position is calculated by dividing the total net asset value of the Fund by the number of units in issue at year-end.

Zakat

Zakat and income tax at the Fund level is the obligation of the Unitholders and is not provided for in these financial statements. Also refer note 17.

Revenue recognition

Investment properties

Rental income from operating leases is recognised on a straight-line basis.

Finance lease income

At the inception of the lease, the total unearned finance income i.e. the excess aggregate minimum lease payments plus residual value (guaranteed and unguaranteed), if any, over the cost of the leased assets, is amortised over the term of the lease, and finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the Fund’s net investment outstanding with respect to the lease.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

Capital

Units in the Fund are classified as equity instruments when a contractual obligation for the Fund is to deliver to another entity a pro rata share of its net assets only on liquidation. The obligation arises because liquidation either is certain to occur and outside the control of the Fund or is uncertain to occur but is at the option of the instrument holder. As an exception to the definition of a financial liability, an instrument that includes such an obligation is classified as an equity instrument if it has all the following features:

(a) It entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation. The Fund's net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by:

(i) dividing the net assets of the Fund on liquidation into units of equal amount; and

(ii) multiplying that amount by the number of the units held by the financial instrument holder.

(b) The instrument is in the class of instruments that is subordinate to all other classes of instruments and has no priority over other claims to the assets of the Fund on liquidation, and

(c) does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.

All financial instruments in the class of instruments that is subordinate to all other classes of instruments must have an identical contractual obligation for the issuing entity to deliver a pro rata share of its net assets on liquidation.

For an instrument to be classified as an equity instrument, in addition to the instrument having all the above features, the issuer must have no other financial instrument or contract that has total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity (excluding any effects of such instrument or contract) and the effect of substantially restricting or fixing the residual return to the instrument holders.

The Fund continuously assesses the classification of the units. If the units cease to have all the features, or meet all the conditions set out, to be classified as equity, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in equity. If the units subsequently have all the features and meet the conditions to be classified as equity, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and cancellation of the Fund's units are accounted for as equity transactions.

Upon the issuance of units, the consideration received is included in equity. Transaction costs incurred by the Fund in issuing or acquiring its own equity instruments are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Earnings per unit

Earnings per unit is calculated by dividing the net income for the year by the weighted average number of units outstanding during the year.

Dividend distribution

As per the Regulations, the distributed profits to Unitholders must not be less than (90%) of the Fund's annual net profits. Accordingly, the Fund distributes dividends on a quarterly basis.

Capital gains from the sale of real estate assets is invested in money market instruments until suitable real estate assets are identified for acquisition by the Fund. If no new investment opportunities are identified within one year of receipt of proceeds from the sale of an asset, the Fund manager will distribute such amounts with the upcoming dividend.

Unclaimed dividends are disclosed under other liabilities in the statement of financial position.

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 statement of income 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 the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

To the extent there is no evidence that it is probable that some or all the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled, or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the statement of income as other income or finance costs.

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

New standards, interpretations and amendments adopted by the Fund

The following new and revised International Financial Reporting Standards have been adopted, which became effective for annual periods beginning on or after 1 January 2023. The adoption of these new revised International Financial Reporting Standards has not had any material effect on the reported amounts for current and prior years.

Standard, interpretation, amendments	**Description**	**Effective date**
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	The IASB amended IAS 1 Presentation of Financial Statements to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements) and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures	1 January 2023
Definition of Accounting Estimates – Amendments to IAS 8	The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, whereas changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.	1 January 2023
IFRS 17, 'Insurance contracts'	This standard replaces IFRS 4, which permits a wide variety of practices in accounting for insurance contracts.	1 January 2023
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction – These amendments requires companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.	1 January 2023
Amendments to IAS 12	International tax reform - pillar two model rules - These amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.	1 January 2023

4. MATERIAL ACCOUNTING POLICIES (CONTINUED)

New standards, interpretations and amendments not yet effective and not early adopted by the Fund

The listing of standards and interpretations issued which the Fund reasonably expects to be applicable at a future date are as follows. The Fund intends to adopt these standards when they become effective. These amendments and standards are not expected to have any impact on the financial statements of the Fund.

Standard, interpretation, amendments	Description	Effective date
Amendment to IFRS 16 – Leases on sale and leaseback	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.	1 January 2024
Amendments to IAS 7 and IFRS 7 on Supplier finance arrangements	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.	1 January 2024
Amendment to IAS 1 – Non-current liabilities with covenants	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.	1 January 2024
Amendments to IAS 21 - Lack of Exchangeability	An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.	1 January 2025

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

<u>Judgments</u>

Going concern

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

Net investment in finance lease

The following are the critical assumptions that have been made in the process of applying the Fund's accounting policies for the net investment in finance lease that have a significant effect on the amounts recognised in the financial statements:

- the present value of the finance lease receivable amounts to substantially all of the fair value of the leased asset at the inception of the lease; and
- the lease term of the assets covers a major part of the economic life of the leased asset.

Classification of units as equity vs liability *(Refer to Note 4 for accounting policy and measurement basis)*

<u>Estimates</u>

Residual value and useful lives of investment properties

The Fund Manager determines the estimated residual value and useful lives of its investment properties for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Fund Manager will review the residual value and useful lives annually and future depreciation charge would be adjusted where the Fund Manager believes the useful lives differ from previous estimates.

The estimated useful life for investment properties, excluding land (infinite useful life), range from 40 to 55 years. Moreover, the estimated residual value for investments properties (building) is estimated to be Nil at the end of the useful life.

Impairment of financial assets *(Refer to Note 4 for accounting policy and measurement basis)*
Impairment of non-financial assets *(Refer to Note 4 for accounting policy and measurement basis)*
Valuation of investment properties *(Refer to Note 4 for accounting policy and measurement basis)*

All amounts are presented in Saudi Riyals unless otherwise stated

6. CASH AND CASH EQUIVALENTS

	31 December 2023 SR	*31 December 2022 SR*
Bank balances with Bank Saudi Fransi	**6,497,565**	17,747,743
Overdraft	**-**	(902,106)
	6,497,565	16,845,637

*No special commission is receivable on this balance (see Note 11).

The Fund Manager has conducted a review as required under IFRS 9 and based on such an assessment, the effect of expected credit loss ("ECL") allowance against the carrying value of cash and cash equivalents is insignificant as the balances are held with an investment grade credit rated financial institutions and therefore no ECL has been recognised in these financial statements.

7. NET INVESTMENT IN FINANCE LEASE

	31 December 2023 SR	*31 December 2022 SR*
a) Net investment in finance lease consists of:		
Gross investment in finance lease (see (b) below)	**139,296,708**	66,775,376
Less: Unearned finance income (see (c) below)	**(66,327,031)**	(32,178,315)
	72,969,677	34,597,061
b) The future minimum lease payments to be received consist of:		
Within one year	**9,384,082**	2,707,895
After one year but not more than five years	**24,736,213**	11,515,322
Five years onwards	**105,176,413**	52,552,159
	139,296,708	66,775,376
c) The maturity of unearned finance income is as follows:		
Within one year	**(8,174,027)**	(2,324,141)
After one year but not more than five years	**(18,351,955)**	(8,942,263)
Five years onwards	**(39,801,049)**	(20,911,911)
	(66,327,031)	(32,178,315)

The finance lease represents the building of the Tarbiah Islamiah School (refer note 9(d)).

The Fund Manager has conducted a review as required under IFRS 9, based on the assessment, the Fund Manager believes that there is no need for any significant impairment loss against the carrying value of net investment in finance lease at the reporting date.

All amounts are presented in Saudi Riyals unless otherwise stated

8. PREPAYMENTS, RECEIVABLES AND OTHER ASSETS

	31 December 2023 SR	*31 December 2022 SR*
Rent receivable *(refer note (a) below)*	**44,431,989**	34,455,600
Rent receivable from related party *(refer note (a) & note 11)*	**26,408,860**	23,824,726
Prepaid expenses	**902,089**	1,160,132
Other assets *(refer note (b) below)*	**265,184**	342,361
VAT receivable – input tax	**-**	385,977
	72,008,122	60,168,796

(a) This represents the difference between the accumulated rental income at the reporting date (after taking into account contractually agreed future rent escalations) and the accumulated amount of rent due under the contract as at the reporting date.

(b) This includes an amount of SAR 262,500, which was made as a result of a VAT audit conducted by the Zakat, Tax, and Customs Authority (ZATCA) for the years 2018 and 2019. This assessment was settled by the Fund in December 2020. Following this payment, the Fund Manager appealed the decision with the General Secretariat of the Tax Committee (GSTC). The GSTC initially ruled in favor of the Fund, however, ZATCA has challenged this decision by appealing to the GSTC's Appeal Committees. The outcome of this appeal is still pending.

9. INVESTMENT PROPERTIES, NET

	31 December 2023		
	Land and Buildings SR	***Capital work in progress SR***	***Total SR***
Cost:			
At the beginning of the year	**728,977,976**	**32,335,427**	**761,313,403**
Additions during the year	**-**	**6,931,648**	**6,931,648**
Transfer from capital work in progress to net investment in finance lease *(see note (e) below)*	**-**	**(39,267,075)**	**(39,267,075)**
At the end of the year	**728,977,976**	**-**	**728,977,976**
Accumulated depreciation:			
At the beginning of the year	**(16,004,459)**	**-**	**(16,004,459)**
Charged during the year	**(6,320,504)**	**-**	**(6,320,504)**
At the end of the year	**(22,324,963)**	**-**	**(22,324,963)**
Accumulated impairment:			
At the beginning of the year	**(3,784,454)**	**-**	**(3,784,454)**
Reversal of impairment during the year	**3,732,857**	**-**	**3,732,857**
At the end of the year	**(51,597)**	**-**	**(51,597)**
Net book value	**706,601,416**	**-**	**706,601,416**

All amounts are presented in Saudi Riyals unless otherwise stated

9. INVESTMENT PROPERTIES (CONTINUED)

	31 December 2022		
	Land and Buildings SR	*Capital work in progress SR*	*Total SR*
Cost:			
At the beginning of the year	569,340,476	-	569,340,476
Additions	159,637,500	32,335,427	191,972,927
At the end of the year	728,977,976	32,335,427	761,313,403
Accumulated depreciation:			
At the beginning of the year	(10,145,556)	-	(10,145,556)
Charged during the year	(5,858,903)	-	(5,858,903)
At the end of the year	(16,004,459)	-	(16,004,459)
Accumulated impairment:			
At the beginning of the year	(4,920)	-	(4,920)
Impairment during the year	(3,779,534)	-	(3,779,534)
At the end of the year	(3,784,454)	-	(3,784,454)
Net book value	709,189,063	32,335,427	741,524,490

The investment properties represent following acquired properties:

a) The Fund has leased the premises of four schools (Hitteen Branch Riyadh, Al Malqa Branch Riyadh, Al Narjis Branch Riyadh, and Aleshraq Branch Dammam) to Al Khaleej Education and Training Co. for SR 159.6 million (excluding transaction costs), acquired on 13 February 2022 (12 Rajab 1443). The properties are registered under Rabwa Taleem Real Estate Company, owned by KASB Capital, serving as the Fund's custodian. Although Rabwa Taleem holds the titles, it only does so for the Fund's benefit, without any controlling interest in the assets. Spanning a total of 19,423 square meters, these assets are designated as investment properties by the Fund. The purchase was financed through a facility provided by Banque Saudi Fransi, a related party.

b) The Fund has leased a property to Al Ghad National School, acquired for SR 94.3 million (excluding transaction costs) on 29 June 2020 (08 Dhul-Qadah 1441). This property is registered under Rabwa Taleem Real Estate Company, owned by KASB Capital, the Fund's custodian. Rabwa Taleem holds the title on behalf of the Fund, with no direct control or ownership stake in the property. Located in the King Abdullah District of Riyadh City on Al-Uruba Street, the property encompasses 11,282.58 square meters of land with a total built-up area of 17,908.28 square meters. The Fund has designated it as an Investment Property. The purchase was financed through a facility from Banque Saudi Fransi, indicating a related party transaction.

All amounts are presented in Saudi Riyals unless otherwise stated

9. INVESTMENT PROPERTIES (CONTINUED)

c) The Fund has entered into a lease agreement with Al Rwad International School for a property, which was acquired in exchange for 225 million worth of Fund units at SR 10 per unit on 26 September 2018 (16 Muharram 1440). The property is registered under Raj Three Company Limited, a subsidiary of KASB Capital, which acts as the Fund's custodian. Raj Three Company Limited holds the title for the benefit of the Fund, without any direct control or ownership interest in the asset. Located in the Alnuzha district of Riyadh City, the property spans 30,000 square meters. It has been designated by the Fund as an Investment Property.

d) The Fund has leased a property to Al Tarbiah Islamiah School (TIS), acquired for SR 250 million in Fund units at SR 10 per unit on 25 May 2017 (29 Shaban 1438). This property is owned by Rabwa Taleem Real Estate Company, under the custodianship of KASB Capital. Rabwa Taleem holds the title for the Fund's benefit, without any controlling interest or ownership in the asset. Located in the Umm-al-Hamam district of Riyadh City, on Al-Takhassusi Street, the property spans 45,666.94 square meters. The previous owners, Ahmed Al Rasheed and Sons Holding Company, retain 38.98% of the Fund's total units (down from 39.12% in 2022). The Fund categorizes the land as an Investment Property and the building as net investment in finance lease.

e) The Fund entered into an agreement with the management of TIS to expand the student capacity by developing a new ‘boys section building’ with a built-up area of 12,900 square meters. The expansion is funded by financing facility from Banque Saudi Fransi (Related Party). The Capital work in progress has been capitalized during the current period and later derecognized as an asset and classified as TIS Expansion finance lease amounting to SAR 39.3 million for the year ended 31 December 2023.

10. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 December 2023 SR	*31 December 2022 SR*
Advance lease payments	**5,156,694**	5,147,953
VAT payable – output tax	**2,530,883**	**-**
Accrued expenses and others	**1,351,131**	190,000
Custody fees payable	**214,399**	184,398
Professional fees payable	**40,001**	45,677
	9,293,108	5,568,028

11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include Saudi Fransi Capital Company (“the Fund Manager”), Banque Saudi Fransi (the Bank and the shareholder of the Fund Manager), the Funds’ Board of Directors (BoD), affiliates of the Fund Manager, the Funds managed by the Fund Manager and the Unitholders of the Fund.

In the ordinary course of its activities, the Fund transacts business with related parties.

All amounts are presented in Saudi Riyals unless otherwise stated

11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (CONTINUED)

Related party transactions for the year ended and balances are as follows:

		Amount of transactions		***Balances Receivables / (Payables)***	
Related Party	***Nature of transactions***	***For the year ended 31 December 2023 SR***	*For the year ended 31 December 2022 SR*	***As at 31 December 2023 SR***	*As at 31 December 2022 SR*
Fund manager	Asset management fees	**(3,825,000)**	(3,825,000)	**(2,217,451)**	(2,053,139)
	Interest penalty compensation*	**-**	-	**556,636**	-
Board of Directors	Board fees to independent board members	**(40,000)**	(40,000)	**-**	-
Unitholders (note a below)	Rental income	**21,926,239**	21,926,239	**26,408,860**	23,824,726
	Net investment in finance lease	**39,267,075**	-	**72,969,684**	34,597,061
	Finance lease income	**4,816,815**	2,348,973	**-**	-
Banque Saudi Fransi	Borrowing from Bank	**(902,106)**	(201,402,107)	**(297,314,597)**	(297,607,224)
	Finance cost charge	**(22,593,316)**	(11,336,578)	-	-
	Finance cost paid	**(21,983,837)**	(9,431,461)	-	-

a) The sponsor unitholder of the Fund namely: Ahmed Al Rasheed and Sons Holding Company is also the shareholder of the Company that owns Tarbiah Islamiah School. Accordingly, the income and related assets in lieu of the lease agreement with Tarbiah Islamiah School has been disclosed under related party transactions.

*The Fund had paid penalties due to late payment of interest on the borrowing amounting to SR 556,636, which is reimbursable by the Fund Manager, Saudi Fransi Capital. and the receivable is disclosed as due from a related party in the statement of financial position.

At the end of the year, cash balance with the Banque Saudi Fransi is SR 6,497,565 (2022: SR 17,747,743) and an overdraft of SR Nil (2022: SR 902,106).

12. CAPITAL

The capital of the Fund is SR 510 million divided into 51 million participating units of SR 10 par value, with each carrying one vote. All issued participating units are fully paid and are listed on the Saudi Exchange (Tadawul). The Fund's capital is represented by these participating units and are classified as equity instruments. The units are entitled to dividends when declared and to payment of a proportionate share of the Fund's net asset value upon winding up of the Fund. A reconciliation of the number of units outstanding at the beginning and end of each reporting period is presented in the statement of changes in equity attributable to the Unitholders.

All amounts are presented in Saudi Riyals unless otherwise stated

13. BORROWING FROM BANK

This represents Islamic mode of financing obtained from a local bank (Banque Saudi Fransi) utilised to finance the acquisition of the properties as detailed in note 9 to these financial statements. The Islamic financing involves the sale and purchase of commodities with the bank as per mutually agreed terms. The Fund obtained financing at an average rate of return of Saudi Interbank Offer Rate (SIBOR) plus the bank's commission. The Fund is to repay the principal in one bullet payment on 30 June 2027. The loan has been obtained in the name of Rabwa Taleem Real Estate Company (SPV of the fund).

The title deed of Rowad International School has been mortgaged and is being held as a collateral against the bank borrowing.

	31 December 2023 SR	*31 December 2022 SR*
Balance at the beginning the year	**297,607,224**	94,300,000
Loan received	**-**	200,500,001
Overdraft facility paid / received (refer note 6)	**(902,106)**	902,106
Accrued profit	**22,593,316**	11,336,578
Profit paid	**(21,983,837)**	(9,431,461)
Balance at the end the year	**297,314,597**	297,607,224

14. INCOME FROM INVESTMENT PROPERTIES

	For the year ended 31 December 2023 SR	*For the year ended 31 December 2022 SR*
Lease rental income on investment properties	**61,580,546**	60,097,281

The operating lease relates to land of Tarbiah Islamiah School, land and building of Al Rwad International School, Al Ghad National School, Al Khaleej Education and Training Co. Hitteen Branch, Al Khaleej Education and Training Co. Al Malqa Branch, Al Khaleej Education and Training Co. Al Narjis Branch, Al Khaleej Education and Training Co. Al Eshraq Branch. The leases provide for tenants to pay the base rent, with provisions for contractual increases in base rent over the term of the leases.

Future rental commitments (to be received) at year end, under the operating leases is as follows:

	31 December 2023 SR	*31 December 2022 SR*
Not later than one year	**46,283,868**	39,556,402
Later than one year and less than five years	**191,887,588**	168,499,122
Later than five years	**690,474,746**	661,850,660
	928,646,202	869,906,184

All amounts are presented in Saudi Riyals unless otherwise stated

15. OTHER EXPENSES

	For the year ended 31 December 2023 SR	*For the year ended 31 December 2022 SR*
Registrar fee	**420,000**	415,000
Listing fee	**182,403**	211,891
Insurance expense	**73,270**	-
Audit fee	**68,250**	68,250
Others	**51,848**	790,661
	795,771	1,485,802

16. DIVIDEND DISTRIBUTION

During the year, the Fund has paid dividends amounting to SR 32.64 million (2022: SR 33.66 million). The dividend per unit amounted to SR 0.64 per unit (2022: SR 0.66 per unit).

Subsequent to the year-end on 15 January 2024, the Fund Manager announces the distribution of cash dividend to the Unitholders of the Fund for the period from 16 Rabi' al-Awwal 1445H (corresponding to 1 October 2023) to 18 Jumada al-Alkhirah 1445H (corresponding to 31 December 2023) amounting to SR 8.16 million (SR 0.16 per unit) (2022: SR 8.16 million (SR 0.16 per unit).

17. PROVISION FOR ZAKAT

a) Basis for zakat

Article 3 of Zakat Collection Rules for Investing in Investment Funds (the "Rules"), stipulates that all investment funds or real estate investment funds approved to be established by the CMA after the effective date of the resolution (1 January 2023), must register with ZATCA for Zakat purposes before the end of the first fiscal year from the date of the approval on their establishment and submit an informative zakat return within 120 days of fiscal year end. Prior to the above Rules, the Fund was already registered with ZATCA and was paying zakat at 2.5% of higher of the approximate zakat base and adjusted net income attributable to the Saudi Unitholders. However, effective 1 January 2023, in accordance with the stipulated article of the Rules, the Fund has ceased the recognition of Zakat expenses. Consequently, the responsibility for Zakat at the Fund level now rests with the Unitholders, and such obligations are not accounted for within these financial statements.

b) Movement of provision for zakat

	31 December 2023 SR	*31 December 2022 SR*
Balance at the beginning of the year	**2,659,944**	2,130,071
Provision for the current year	**-**	2,730,537
Provision for prior year*	**20,596**	-
Payments during the year	**(2,680,540)**	(2,200,664)
	-	2,659,944

* During 2023, the fund has made a zakat payment in the amount of SR 2,680,540 related to 2022 net income. The amount paid exceeded the accrued provision amount by SR 20,596, which was booked as additional Zakat expense in the current year.

c) Status of annual return and assessment

The Fund would file the annual return for the year ended 31 December 2023 within the stipulated timelines as specified under the Zakat regulations issued by ZATCA.

All amounts are presented in Saudi Riyals unless otherwise stated

18. FAIR VALUE OF ASSETS AND LIABILITIES

The Fund believes that the fair value of all financial assets and liabilities approximately equal their carrying value. The fair value of investment properties is SAR 814 million (2022: SAR 765 million) carried at Level 3.

19. EFFECT ON NET ASSET VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED

In accordance with Article 36 of the Real Estate Investment Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's assets based on an average of two evaluations prepared by independent valuers. As set out in the terms and conditions of the Fund, the net asset values declared are based on the market value obtained. However, in accordance with International Accounting Standards 40 ("IAS 40") the Fund opted to use the cost method wherein investment properties are carried at cost less accumulated depreciation and impairment, if any, in these financial statements. Accordingly, the fair value below is disclosed for information purposes and has not been accounted for in the Fund's books in case of impairment.

The valuation of the investment properties (the "properties") is carried out by Saudi Asset Valuation Company (Tathmeen) and Abaad & Partner For Real Estate Valuation Company. These two valuers are licensed by the Saudi Authority for Accredited Valuers ("TAQEEM"). The Fund Manager has used the average of the two valuations for the purpose of disclosing the fair value of the properties. The properties were valued taking into consideration of several factors, including the area and type of properties, and valuation techniques using significant unobservable inputs, including the land plus cost method, residual value method and the discounted cash flow method.

Below is an analysis of the properties fair value versus cost:

	31 December 2023	*31 December 2022*
Estimated fair value of investment properties	**814,192,085**	737,213,938
Book value of investment properties (excluding capital work in progress) *	**(706,601,416)**	(709,189,063)
Accrued rental receivables	**(26,408,860)**	(23,824,726)
Estimated fair value surplus relative to book value **	**81,181,809**	4,200,149
Units in issue (numbers)	**51,000,000**	51,000,000
Per unit value impact from excess of investment properties' estimated fair value over book value	**1.5918**	0.0824

Equity value

	31 December 2023	*31 December 2022*
Equity as per the financial statements	**549,808,260**	546,149,755
Estimated fair value surplus relative to book value **	**81,181,809**	4,200,149
Equity based on fair valuation of investment properties	**630,990,069**	550,349,904
Equity value per unit		
Equity per unit as per the statement of financial position	**10.7806**	10.7088
Per unit value impact from excess of investment properties' estimated fair value over book value	**1.5918**	0.0824
Equity value per unit based on fair valuation of investment properties	**12.3724**	10.7912

The Fund's investment in the building of Tarbiah Islamiah School has been classified as a finance lease in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia. The fair value of the net investment in finance lease has been determined based on the market special commission rates. As of the reporting date, the carrying value of the net investment in finance lease approximates its fair value.

* The value of capital work in progress approximates the fair value.
** The book value is calculated based on the assumption that the investment properties are sold on the reporting date.

All amounts are presented in Saudi Riyals unless otherwise stated

20. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table presented below provides an analysis of assets and liabilities, categorized by their expected timelines for recovery or settlement. Additionally, the maturity dates listed correspond with the contractual maturities of these assets and liabilities.

As at 31 December 2023	***Within 12 months SR***	***After 12 months SR***	***Total SR***
ASSETS			
Cash and cash equivalents	**6,497,565**	**-**	**6,497,565**
Net investment in finance lease	**1,210,055**	**71,759,622**	**72,969,677**
Prepayments, receivables and other assets	**11,599,897**	**60,408,225**	**72,008,122**
Due from related party	**556,636**	**-**	**556,636**
Investment properties	**-**	**706,601,416**	**706,601,416**
TOTAL ASSETS	**19,864,153**	**838,769,263**	**858,633,416**
LIABILITIES			
Management fee payable	**2,217,451**	**-**	**2,217,451**
Accrued expenses and other liabilities	**9,293,108**	**-**	**9,293,108**
Borrowings from a bank	**-**	**297,607,224**	**297,314,597**
TOTAL LIABILITIES	**11,510,559**	**297,607,224**	**308,825,156**

As at 31 December 2022	*Within 12 months SR*	*After 12 months SR*	*Total SR*
ASSETS			
Cash and cash equivalents	17,747,743	-	17,747,743
Net investment in finance lease	383,753	34,213,308	34,597,061
Prepayments, receivables and other assets	59,266,707	902,089	60,168,796
Investment properties	-	741,524,490	741,524,490
TOTAL ASSETS	77,398,203	776,639,887	854,038,090
LIABILITIES			
Management fee payable	2,053,139	-	2,053,139
Accrued expenses and other liabilities	5,568,028	-	5,568,028
Provision of zakat	2,659,944	-	2,659,944
Borrowings from a bank	-	296,607,224	297,607,224
	10,281,111	296,607,224	307,888,335

21. SEGMENT INFORMATION

The Fund is organised into one operating segment (Educational Institutions). Accordingly, all significant operating decisions are based upon analysis of the Fund as one segment.

All amounts are presented in Saudi Riyals unless otherwise stated

22. FINANCIAL AND RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management

The Fund Manager is primarily responsible for identifying and controlling risks.

Risk measurement and reporting system

Monitoring and controlling risks are primarily set up to be performed based on limits as specified in the regulations. In addition, the compliance department of the Fund Manager monitors the exposures against the limits as specified in the regulations.

Risk mitigation

The Fund's investment guidelines as specified in Terms and Conditions and fact sheet set out its overall business strategies, its tolerance for risk and its general risk management philosophy.

Concentration risk

Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location.

Concentrations risk arises when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. As the Fund has invested in real estate in Kingdom of Saudi Arabia, there is a concentration risk of geographical location.

Credit risk

Credit risk is the possibility of non-payment by counterparties and financial institutions through which the Fund transacts. The Fund is exposed to credit risk on its cash and cash equivalents, rental income receivable and net investment in finance lease. Cash and cash equivalent is maintained with Banque Saudi Fransi. The net investment in finance lease is made with the Unitholder of the Fund for whom no credit rating is available. Cash flows from the lessees are being received in accordance with the lease with no issues of default. The maximum exposure to the credit risk for the financial assets is their carrying value.

The following table shows the Fund's maximum exposure to credit risk for components of the statement of financial position. All of these financial assets are classifed at stage 1.

	31 December 2023 SR	*31 December 2022 SR*
Cash and cash equivalents	**6,497,565**	17,747,743
Net investment in finance lease	**72,969,677**	34,597,061
Due from a related party	**556,636**	-
Other assets	**70,840,849**	58,280,326
	150,864,727	110,625,130

22. FINANCIAL AND RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in generating funds to meet commitments associated with financial liabilities, which comprise of management fees payable, bank borrowings, accrued finance cost and other liabilities. The Fund is a closed-ended fund and further to subscribing to the Fund's units during the offering period, no sales and purchase of units are permitted, unless specifically approved by CMA.

The remaining contractual maturities at the reporting date of the Fund's financial liabilities, except for borrowings from bank (see note 13), consisting of management fee payable and other liabilities are all due within 12 months. The undiscounted amount of these financial liabilities approximates their carrying values at the reporting date.

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates, equity prices and interest rates, will affect the Fund's income or cash flows. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return.

Currency risk

Currency risk is the risk that the value of a financial instrument may fluctuate due to a change in foreign exchange rates. The financial instruments of the Fund i.e. cash and bank balances, net investment in finance lease, rental income receivable, management fee payable, borrowings and other liabilities are denominated in Saudi Arabian Riyals. Accordingly, the Fund is not exposed to any currency risk.

Special commission rate risk

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market special commission rates. The Fund is subject to special commission rate risk on its special commission bearing assets including net investment in finance lease. The Fund does not account for any fixed rate special commission bearing financial assets at fair value and therefore, a change in special commission rates at the reporting date would not have any effect on the financial statements. The Fund is exposed to cashflow special commission rate risk on the floating rate borrowings. A hundred basis points change in commission rate keeping all other factors constant will increase/decrease the special commission expense by SR 306,881 (2022: SR 278,451).

23. LAST VALUATION DAY

The last valuation day for the purpose of preparation of these financial statements for the year ended was 31 December 2023 (2022: 31 December 2022).

24. EVENTS AFTER THE END OF REPORTING PERIOD

Subsequent to the year end, the Fund Manager has announced the distribution of cash dividend. (refer note 16).

25. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Fund Board on 23 March 2024 (corresponding to 13 Ramadhan 1445H).