

Al Mal Capital REIT

Fund manager's report and financial statements

For the period from 15 December 2020 to 31 December 2021

Al Mal Capital REIT

Reports and financial statements

For the period from 15 December 2020 to 31 December 2021

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Fund manager's report

We are pleased to present the first report on Al Mal Capital REIT (the "Fund") since its incorporation.

Al Mal Capital REIT, licensed by the Securities and Commodities Authority (SCA) of the UAE, is a closed ended Real Estate Investment Trust (REIT), listed on the Dubai Financial Market and is the first such listing on the local stock market of the UAE.

Al Mal Capital PSC is the fund manager (the "Fund Manager") that manages the Fund's investments. The Fund Manager is a Private Stockholding Company incorporated in the United Arab Emirates. The Fund Manager is a subsidiary of Dubai Investments PJSC, a company listed on the Dubai Financial Market (the "DFM").

The objective of the Fund is to invest in a diversified portfolio of income generating real estate assets in the UAE and GCC, based on secure long-term lease agreements with a strong credit profile of the tenants with a focus on healthcare and education sector. The Fund can also invest into assets in the Industrial segment to diversify its asset base.

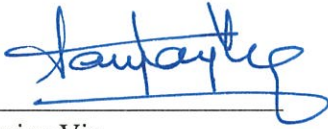
On November 2021, the Fund marked its entry into the Emirate of Ajman's K-12 education sector through the acquisition of two school campuses of Al Shola Private Schools in Ajman, UAE for AED 300 million. Al Shola Group, founded in 1983, currently operates 5 schools (3 in Sharjah and 2 in Ajman) with a total current number of students of c. 10,700 and a total capacity of nearly 13,250 students. The Group is considered a landmark educational institution having contributed to educating generations of promising young men and women in the UAE.

The transaction is structured as a long-term sale and leaseback with attractive lease terms yielding an average of 7.72% over the 15-year term, including triple net arrangement i.e., net of maintenance, insurance, and taxes, thus delivering attractive cash flows.

Having successfully delivered the first asset for the Fund, the Fund manager is in advanced stages of discussions to close the second acquisition for the Fund. This will ensure that the momentum is carried into 2022, which is expected to be another good year for the Fund from an investing perspective.

Al Mal Capital REIT, as the first domestic listed REIT on the DFM is expected to benefit from the first mover advantage by adding quality real estate assets in the designated sectors, which will necessitate additional equity through a follow-on offering for new investments. This will increase the Assets under Management (AUM) for the Fund and may set a benchmark for REITs in the mainland of UAE.

The Funds well-defined strategy supported by positive macroeconomics is expected to deliver a performance in line with its objectives for 2022.



Sanjay Vig
Director

24 February 2022

Independent auditor's report to the unitholders of Al Mal Capital REIT

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Al Mal Capital REIT (the "Fund") as at 31 December 2021, and its financial performance and its cash flows for the period from 15 December 2020 to 31 December 2021 (the "Period") in accordance with International Financial Reporting Standards.

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of profit or loss and other comprehensive income for the Period ended 31 December 2021;
- the statement of changes in unitholders' equity for the Period ended 31 December 2021;
- the statement of cash flows for the Period ended 31 December 2021; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key Audit Matter	• Sale and leaseback transactions
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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 the Fund Manager made subjective judgements; 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 the Fund Manager 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.

Independent auditor's report to the unitholders of Al Mal Capital REIT (continued)

Our audit approach (continued)

Key audit matter

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
<p>Sale and leaseback transactions</p> <p>During the Period ended 31 December 2021, the Fund acquired two school campuses from Al Shola Private Schools in Ajman for AED 300 million as part of sale and leaseback transactions. Accordingly, the school campuses have been recognised as investment properties and leased back to the operator under an operating lease.</p> <p>We determined this to be a key audit matter, given the financial significance and complexity in applying the relevant requirements of IFRS applicable to sale and leaseback transactions, which, amongst other matters, require consideration of whether the Fund obtained control over the assets acquired and determination of whether the lease is an operating or financing lease.</p> <p>Refer to notes 4 and 5 to the financial statements for related disclosures with respect to the above.</p>	<p>We obtained an understanding of the transactions through inquiries with the Fund Manager and review of the significant terms of the underlying sale and lease back agreements.</p> <p>We reviewed the Fund Manager's assessment on transfer of control over the assets acquired in accordance with IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases', by reviewing relevant terms under the sale and lease back agreements.</p> <p>We reviewed the Fund Manager's assessment of the lease classification as an operating lease in accordance with IFRS 16 'Leases'.</p> <p>We assessed the appropriateness of disclosures made in the Notes 4 and 5 to the financial statements.</p>

Independent auditor's report to the unitholders of Al Mal Capital REIT (continued)

Other information

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

Our opinion on the financial statements does not cover the other information and we do not and 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.

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

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

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund Manager.

Independent auditor's report to the unitholders of Al Mal Capital REIT (continued)

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

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

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

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

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 matter. 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
24 February 2022

A handwritten signature in blue ink, appearing to read 'Murad Alnsour'.

Murad Alnsour
Registered Auditor Number 1301
Dubai, United Arab Emirates

Al Mal Capital REIT

Statement of financial position

		At 31 December 2021 AED'000
	Note	
Assets		
Non-current assets		
Investment properties	5	300,000
Current assets		
Receivables and other assets	6	420
Cash and cash equivalents	7	43,400
		43,820
Total assets		343,820
Equity		
Unitholders' equity	8	350,064
Accumulated losses		(8,036)
Total unitholders' equity		342,028
Liabilities		
Current liabilities		
Due to a related party	9	1,085
Other payables		707
Total liabilities		1,792
Total equity and liabilities		343,820
Net asset value (AED'000)		342,028
Issued units (Units'000)		350,064
Net asset value per unit (AED)		0.97704

These financial statements were approved by the Board of Directors of Al Mal Capital PSC as the Fund Manager on 24 February 2022 and were signed on its behalf by:

.....
Vice-Chairman & CEO

.....
Chief Operating Officer

Al Mal Capital REIT

Statement of profit or loss and other comprehensive income

		For the period from 15 December 2020 to 31 December 2021 AED'000
	Note	
Income		
Lease revenue	5	<u>2,598</u>
Expense		
Management fees	9	(4,486)
Other expenses	10	<u>(873)</u>
Total expense		<u>(5,359)</u>
Finance income		1,109
Unrealised loss on revaluation of investment properties	5	<u>(6,384)</u>
Loss for the period		<u>(8,036)</u>
Other comprehensive income		-
Loss and total comprehensive loss for the period		<u><u>(8,036)</u></u>
Earnings per unit		
Basic and diluted loss per unit (AED)		<u><u>(0.023)</u></u>

Al Mal Capital REIT

Statement of changes in unitholders' equity

For the period from 15 December 2020 to 31 December 2021

	Note	Number of units '000	Unitholders' equity AED'000	Accumulated losses AED'000	Total AED'000
Issuance of units	8	350,064	350,064	-	350,064
Loss and total comprehensive loss for the period		-	-	(8,036)	(8,036)
		<u>350,064</u>	<u>350,064</u>	<u>(8,036)</u>	<u>342,028</u>

Al Mal Capital REIT

Statement of cash flows

		For the period from 15 December 2020 to 31 December 2021 AED'000
	Note	
Cash flows from operating activities		
Loss for the period		(8,036)
Adjustment for:		
Unrealised loss on revaluation of investment properties	5	6,384
Finance income		(1,109)
Operating cash flows before changes in working capital		(2,761)
Changes in working capital:		
Receivables and other assets		(420)
Due to a related party		1,085
Other payables		707
Net cash used in operating activities		(1,389)
Cash flows from investing activities		
Purchase of investment properties	5	(306,384)
Finance income received		1,109
Net cash used in investing activities		(305,275)
Cash flows from financing activities		
Proceeds from issuance of units*		350,064
Net cash generated from financing activities		350,064
Net increase in cash and cash equivalents		43,400
Cash and cash equivalents at beginning of the period		-
Cash and cash equivalents at 31 December 2021	7	43,400

*On behalf of the Fund Manager, the Fund collected subscription fees inclusive of VAT amounting to AED 7,001,870 from the unitholders and transferred the same to the Fund Manager (Note 9).

Al Mal Capital REIT

Notes to financial statements

for the period from 15 December 2020 to 31 December 2021

1 Legal status and activities

Al Mal Capital REIT (the “Fund”) is a public closed ended real estate investment fund. The Fund was incorporated in the United Arab Emirates on 15 December 2020 for a period of 99 years pursuant to the provisions of Federal Law No. 4 of 2000 concerning the Emirates Securities and Commodities Authority, the Emirates Securities and Commodities Authority (“SCA”) Board of Directors’ Chairman Decision No. 9/R.M of 2016 Concerning the Regulations as to Investment Funds (“Fund Regulations”) and the SCA Administrative Decision No. 6/RT of 2019 Concerning Real Estate Investment Fund Controls (the “REIT Regulations”).

The Fund is listed and traded on the Dubai Financial Market (the “DFM”) and is primarily involved in investing in income generating real estate assets, including real estate of educational facilities, health facilities, and industrial assets across the United Arab Emirates (“UAE”) and the Gulf Cooperation Council (“GCC”), thereby providing Unitholders with an attractive annual return through dividend distribution. The Fund is mandatorily required as per the REIT Regulations to distribute 80% of its annual realised net profit to the Unitholders, payable annually.

Al Mal Capital PSC is the fund manager (the “Fund Manager”) that manages the Fund’s investments. The Fund Manager is a Private Stockholding Company incorporated in the United Arab Emirates. The Fund Manager is a subsidiary of Dubai Investments PJSC, a company listed on the Dubai Financial Market (the “DFM”).

Dubai Investments PJSC is the parent and the controlling party of Al Mal Capital REIT and has an effective holding of 76.8% of the Fund’s units.

The registered address of the Company is P.O. Box 119930, Dubai, UAE.

Due to first year of Fund’s operations, the financial statements are prepared for a period from the date of incorporation of 15 December 2020 to 31 December 2021.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

2.1 Basis of preparation

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS.

The financial statements of the Fund have been prepared on the historical cost basis, except for investment properties which are measured at fair value.

The preparation of the financial statements in conformity with International Financial Reporting Standards (“IFRS”) requires the use of certain critical accounting estimates. It also requires the Fund Manager to exercise its judgment in the process of applying the Fund’s accounting policies. The areas involving a higher degree of judgment or complexity, or the areas where the assumption and estimate is significant to the financial statements is disclosed in Note 4.

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Notes to the financial statements (continued)

for the period from 15 December 2020 to 31 December 2021

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

New and revised IFRSs in issue but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these new and amended standards, if applicable, when they become effective. These standards are not expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

- Amendments to IAS 37 - What is included in cost of fulfilling a contract for onerous contracts (Effective 1 January 2022);
- Annual Improvements to IFRS Standards 2018 - 2020 - Amendments to IFRS 1, IFRS 9, illustrative examples accompanying IFRS 16 and IAS 41 (effective 1 January 2022);
- Property, Plant and Equipment, amendments to IAS 16 - Amendments clarify treatment of proceeds before intended use (effective 1 January 2022);
- Reference to the Conceptual Framework - Amendments to IFRS 3 (effective 1 January 2022);
- Definition of accounting estimates, Amendments to IAS 8 : clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates (effective 1 January 2023);
- IFRS 10 and IAS 28 - Sale or Contribution of Assets between an investor and its Associate or Joint Venture (the effective date has been deferred indefinitely, but an entity that early adopts the amendments must apply them prospectively);
- Amendments to IFRS 17 - Concerns and implementation challenges (effective 1 January 2023);
- Amendments to IAS 1 - Deferment of January 2020 amendments, classification of liabilities and disclosure of accounting policies (effective 1 January 2023); and
- Amendments to IAS 12 - Deferred tax on leases and decommissioning obligations (effective 1 January 2023).

2.2 Foreign currencies translation

(a) Functional and presentation currency

These financial statements are presented in United Arab Emirate Dirham ("AED"), which is the Fund's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.3 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Fund, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

Al Mal Capital REIT

Notes to the financial statements (continued)

for the period from 15 December 2020 to 31 December 2021

2 Summary of significant accounting policies (continued)

2.3 Investment properties (continued)

Investment property is measured initially at its cost, including related transaction costs and where applicable, borrowing costs.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

After initial recognition, investment property is carried at fair value.

Changes in fair values are recognised in the statement of profit or loss. Investment properties are derecognised when they have been disposed of.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the property) is recognised in profit or loss.

2.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

2.5 Financial assets

(i) Classification

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

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Fund's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Fund has made an irrevocable election at the time of initial recognition.

The Fund reclassifies debt investments when and only when its business model for managing those assets changes.

Al Mal Capital REIT

Notes to the financial statements (continued)

for the period from 15 December 2020 to 31 December 2021

2 Summary of significant accounting policies (continued)

2.5 Financial assets (continued)

(i) Classification (continued)

Classification of financial assets at amortised cost

The Fund classifies its financial assets as at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

Classification of financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (FVOCI) represents receivables where the contractual cash flows are solely payments of principal and interest and the objective of the Fund's business model is achieved both by collecting contractual cash flows and selling financial assets.

Following are the Fund's financial assets carried at amortised cost:

- Cash and cash equivalents: Cash and cash equivalents include balances in current accounts and short-term deposits held with banks.
- Receivables and other assets: Receivables and other assets are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

(ii) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date, being the date on which the Fund commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Fund measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the statement of profit or loss and other comprehensive income.

The fair values of financial assets approximate their carrying values as the impact of discounting is not significant.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Al Mal Capital REIT

Notes to the financial statements (continued)

for the period from 15 December 2020 to 31 December 2021

2 Summary of significant accounting policies (continued)

2.5 Financial assets (continued)

(iv) Impairment of financial assets

The Fund has the following significant types of financial assets that are subject to IFRS 9 expected credit loss (ECL) model

- Cash and cash equivalents; and
- Receivables and other assets.

Financial assets are written-off, in whole or in part, when the Fund has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are credited against the same line item.

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Fund monitors all financial assets to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Fund measures the loss allowance based on lifetime expected credit loss model.

In assessing whether the credit risk on the financial statements has increased significantly since initial recognition, the Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information.

2.6 Cash and cash equivalents

Cash and cash equivalents include short term deposits and cash held with banks.

2.7 Unitholders' equity

The Fund has a limited life of 99 years from the date of establishment and being a closed ended fund, the Unitholders can trade these units on the DFM but do not have the right to withdraw or redeem their units. In accordance with the REIT regulations, the Fund is required to distribute to Unitholders not less than 80% of its annual realised net profit. Distributions to Unitholders are recognised in the statement of changes in unitholders' equity.

2.8 Finance income

Finance income is recognised on a time-proportionate basis using the effective interest method. Interest income includes interest from cash and cash equivalents.

Al Mal Capital REIT

Notes to the financial statements (continued)

for the period from 15 December 2020 to 31 December 2021

2 Summary of significant accounting policies (continued)

2.9 Leases

When the Fund acts as a lessor, it determines at the lease commencement whether each lease is a finance lease or an operating lease. The Fund makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of incidental to ownership of the underlying asset. As part of this assessment, the Fund considers certain indicators such as whether the lease is for a major part of the economic life of the asset.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease revenue from operating leases comprises of rental income from tenants. Lease revenue from operating leases is recognised on a straight-line basis over the lease term. When the Fund provides incentives to its tenants, the cost of the incentives is recognised over the lease term, on a straight-line basis, as a reduction of lease revenue.

Under sale and leaseback transaction, the Fund first considers whether the initial transfer of the underlying asset from the seller-lessee to the buyer-lessor is a sale. The buyer-lessor will recognise the underlying asset and apply the lessor accounting model to the leaseback in case the initial transfer is a sale.

Lease classification is made at the inception of the lease. Lease classification is changed only if, at any time during the lease, the parties to the lease agreement agree to change the provisions of the lease in a way that it would have been classified differently at inception had the changed terms been in effect at that time. The revised agreement is considered as a new agreement and accounted for prospectively over the remaining term of the lease.

3 Financial risk management

3.1 Financial risk factors

The Fund's activities potentially expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Fund does not have any significant exposure to foreign currency risk since majority of the transactions are denominated in AED, US Dollar or other currencies, whereby the AED or other currencies are pegged to the US Dollar.

Al Mal Capital REIT

Notes to the financial statements (continued)

for the period from 15 December 2020 to 31 December 2021

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) *Market risk (continued)*

(ii) *Price risk*

The Fund has no significant exposure to price risk as it does not hold any financial instruments which are sensitive to price risk.

(iii) *Cash flows interest rate risk*

The Fund has no significant exposure to cash flows interest rate risk as it does not hold any interest bearing assets or liabilities as at 31 December 2021.

(b) *Credit risk*

Counterparties (<i>Moody's rating</i>) Rating	At 31 December 2021 AED'000
A1	6,291
A3	37,109
	<hr/> 43,400 <hr/>

Credit risk from balances with banks and other financial institutions is managed by the Fund Manager by maintaining funds with only approved and reputable counterparties with high credit rating.

As at 31 December 2021, cash and bank balance with one bank accounted for 86% of the cash and bank balances of the Fund. The Fund Manager is of the view that this concentration of credit risk would not result in a loss to the Fund as the counterparty bank has a high credit rating.

(c) *Liquidity risk*

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Fund aims to maintain flexibility in funding by keeping committed credit lines available as required.

The Fund aims to maintain the level of cash and cash equivalents and other liquid investments at an amount in excess of expected cash outflows on financial liabilities. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Al Mal Capital REIT

Notes to the financial statements (continued)

for the period from 15 December 2020 to 31 December 2021

3 Financial risk management (continued)

3.2 Capital risk management

The Fund's objectives when managing capital are to safeguard its ability to continue as a going concern whilst seeking to maximise benefits to Unitholders. The Fund's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Fund Manager focuses on the return on capital, which is defined as profit for the year attributable to equity holders of the Fund divided by total unitholders' equity.

The Fund Manager seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position.

At 31 December 2021, the Fund is un-gearred as it does not carry any short or long term debt.

3.3 Fair value estimation

The carrying value of financial assets and financial liabilities of the Fund approximates their fair value as at 31 December 2021.

4 Use of estimates and judgments

The preparation of financial statements requires the Fund Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The areas involving a higher degree of judgment or complexity, or area where assumptions and estimates are significant to the financial statements is disclosed below:

Sale and leaseback transaction and lease classification (operating vs financing)

Where the Fund (as the Buyer and future lessor) enters into the sale and leaseback transactions to acquire investment properties from the future lessee/seller, the Fund first considers whether the initial transfer of the underlying asset from the seller-lessee to the Fund is considered a financing arrangement in IFRS 9 - Financial Instruments or a sale under IFRS 15 - Revenue from Contracts with Customers (IFRS 15). The Fund will recognise the underlying asset and apply the lessor accounting model to the leaseback if control over the assets passes to the Fund and the sale is accounted for under IFRS 15.

A lease is classified as a finance lease when substantially all the risks and rewards of ownership are transferred by the Fund. In determining the appropriate classification, the substance of the transaction rather than the form is considered. Factors considered include but are not limited to the following: whether the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at the price that is sufficiently lower than the fair value on exercise date; the lease term is for a major part of the economic life of the asset and the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

The Fund Manager has applied judgement in determining that the initial transfer is a sale as the Fund acquired the control as it has the right to sell or mortgage the underlying assets and that the lease should be classified as an operating lease considering the relevant criteria of IFRS 16 – Leases (Note 5).

Al Mal Capital REIT

Notes to the financial statements (continued)

for the period from 15 December 2020 to 31 December 2021

4 Use of estimates and judgments (continued)

Valuation of investment properties

For the determination of fair value of investment property, the best evidence of fair value is normally given by current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts or bid prices for these properties. Alternatively, fair value can be determined based on the investment method (term and reversion), which derives value from the capitalisation of a property's net income.

The Fund recognises property initially at cost, including related transaction costs. In accordance with IAS 40 'Investment Property', the Fund has elected to measure properties thereafter at the fair value, as determined by the independent valuers. The independent valuers used are not related to the Fund and they hold recognised and relevant professional qualifications and relevant experience in the location and category of the investment property being valued.

The different levels for fair values of non-financial assets have been defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The table below analyses non-financial asset measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2021				
Investment properties	-	-	300,000	300,000

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between fair value levels during the period.

The potential impact on the fair valuation of the investment property should there be any changes in the values of key unobservable inputs used by the valuer is disclosed in Note 5.

Al Mal Capital REIT

Notes to the financial statements (continued)

for the period from 15 December 2020 to 31 December 2021

5 Investment properties

At 31 December
2021
AED'000

Balance at 15 December 2020	-
Additions to investment properties during the period	306,384
Loss on fair valuation	(6,384)
Balance at 31 December 2021	<u>300,000</u>

Investment properties comprise of two schools Al Shola Private School and Al Shola American Private School (the "Properties"), located at Al Tallah 2, Ajman, UAE. The properties, part of the Al Shola Group, are almost identical with a combined total land area of approx. 300,000 Sq. ft. and a combined built up area of approx. 495,800 Sq. ft. with a combined total capacity to accommodate up to 4,300 students.

The properties were acquired as part of sale and lease back transactions (the "Transactions") entered into on 21 November 2021. Upon acquisition of control, the school campuses were leased back to the operator on an operating lease for 15 years on a triple net basis for management and operation. The lease is renewable subject to mutual agreement.

Lease revenue of AED 2.6 million has been recognised during the period.

Note 12 sets out a maturity analysis of the lease payments, showing the undiscounted lease payments to be received after the reporting date.

Valuation processes

The properties were valued prior to the acquisition at 19 October 2021 by an independent registered valuer (CBRE Dubai LLC) in accordance with the RICS Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors taking into account requirements of IFRS 13 'Fair value measurements'. For all investment properties, their current use equates to the highest and best use. Senior management review the valuations performed by the independent valuers for financial reporting purposes.

Valuation techniques underlying the Fund Manager's estimation of fair value:

The valuation was determined using the investment method (term and reversion), which derives value from the capitalisation of a property's net income.

Significant unobservable inputs:

Equivalent yield

The current net rent (term) is capitalised at a yield of 7.03% that reflects the risk profile of the rent until expiration of the lease and is discounted to present value. Upon lease expiration, it is assumed that the rent receivable will revert to market rent (reversion), which is then capitalised into perpetuity at a yield of 8.02% that reflects the risk, return and growth expectation of the future income. This results in an equivalent yield of 7.59% for the property.

If the equivalent yield was 0.5% higher/lower, the valuation would have been AED 19 million lower / AED 21 million higher.

The Fund Manager assessed that the fair value as at 31 December 2021 approximate the above value given the long lease term of 15 years and the proximity of the valuation and transaction date to the year end.

Al Mal Capital REIT

Notes to the financial statements (continued)

for the period from 15 December 2020 to 31 December 2021

6 Receivables and other assets

	At 31 December 2021 AED'000
Rent receivable	155
Prepayments	37
Other receivables	228
	<u>420</u>

7 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	At 31 December 2021 AED'000
Cash at bank	<u>43,400</u>

At 31 December 2021, bank balances were placed with a local bank and a branch of an international bank.

8 Unitholders' equity

Unitholders' equity comprises of 350,064,000 units of AED 1 each.

In terms of the requirements of IFRS, the units need to be assessed to determine whether these should be classified as equity or financial liabilities in the financial statements. In performing the assessment, consideration needs to be given to the terms of the REIT regulations which require distribution of 80% of its annual realised net profit to the unitholders annually. In certain instances, this may give rise to a financial liability under IAS 32: Financial Instruments - Presentation ("IAS 32") and would result in the units being classified as financial liabilities. A financial liability arises from the existence of a contractual obligation of one party to the financial instrument (Al Mal Capital REIT) to deliver cash or another financial asset to the other party (the Unitholder). However, IAS 32 would not consider statutory/legal obligations in performing the assessment under IAS 32. Obligations established by local law or statute, is an obligation as a result of the operation of law and does not create a contractual obligation as required by the definition of a financial liability.

In performing the assessment of the requirement to distribute profits each year, the Fund Manager applied judgement at initial recognition and considered that the requirement to distribute profits is a legal/statutory obligation and the unitholders' funds were therefore classified as equity.

Amendments were subsequently made to the prospectus to explicitly reflect this statutory obligation and these amendments was approved by the regulator on 13 January 2022. Consequently, there is no significant judgment involved with respect to the classification of unitholders' equity.

Al Mal Capital REIT

Notes to the financial statements (continued)

for the period from 15 December 2020 to 31 December 2021

9 Related party transactions and balances

Related parties comprise of the parent company, the Fund Manager and key management personnel and businesses which are controlled directly or indirectly, by the parent company, the Fund Manager or key management personnel. The aggregate value of significant transactions with related parties during the period was as follows:

Related party transactions

For the period from 15
December 2020 to 31
December 2021
AED'000

Transactions with the Fund Manager

Management fees	4,486
Asset acquisition fee capitalised in investment property	3,000
Subscription fee paid (inclusive of VAT) *	7,001

As per the prospectus and the fund management agreement, the Fund Manager is entitled to the following:

- Management fees: yearly management fees of 1.25% based on the last reported NAV, calculated and paid every three months.
- Acquisition or disposition fee: 1% of the acquisition or disposition value of the assets acquired or disposed in favor of the fund.
- Arrangement advisory fee: 1% of the debt or loan value for advising on loan and debt arrangements.

In all cases, the annual management fees (the total of the above three fees) during the fiscal year will not exceed 2.25% of the last reported NAV of the fund calculated in the same fiscal year and before deduction of management fees.

*Subscription fee paid represents the amount collected from the unitholders on behalf of the Fund Manager in line with the prospectus.

On the date of incorporation of the Fund, the following related parties subscribed to the Fund's units:

	AED'000
Subscriptions made by the parent company	242,000
Subscriptions made by key management personnel and their relatives	56,050
Subscriptions made by the Fund Manager	40,050
Subscriptions made by other related parties	2,000
	<u>340,100</u>

Related party balances

At 31 December
2021
AED'000

Due to a related party – the Fund Manager	<u>1,085</u>
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Al Mal Capital REIT

Notes to the financial statements (continued)

for the period from 15 December 2020 to 31 December 2021

10 Other expenses

	For the period from 15 December 2020 to 31 December 2021 AED'000
Professional fees	724
Fund services fee	132
License and registration fees	14
Miscellaneous expenses	3
	<u>873</u>

11 Financial instruments by category

	At 31 December 2021 AED'000
<i>At amortised cost</i>	
Financial assets	
Receivables and other assets (excluding VAT receivable and prepayments)	155
Cash and cash equivalents	<u>43,400</u>
	<u>43,555</u>
<i>At amortised cost</i>	
Financial liabilities	
Due to a related party	1,085
Other payables	<u>707</u>
	<u>1,792</u>

12 Commitments

The future minimum rentals receivable under operating leases as at 31 December 2021 are as follows.

	At 31 December 2021 AED'000
Within one year	21,750
After one year but not more than five years	87,979
More than five years	<u>237,653</u>
	<u>347,382</u>