ILAM
FAHARI I-REIT

Above and Beyond

# ILAM FAHARI I-REIT

ANNUAL REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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# OUR CORPORATE INFORMATION

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# OUR CORPORATE INFORMATION

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# THE CHAIRMAN'S STATEMENT

**ANDREW NDEGWA**
Chairman

> ***"On behalf of the REIT Manager's Board of Directors, I present the ILAM Fahari I-REIT's annual report for the year ended 31 December 2022."***

## HIGHLIGHTS

Kenya's rebound from the pandemic continued in 2022 with Gross Domestic Product (GDP) expanding by 4.7% in 3Q22 compared to a growth of 9.3% registered in 3Q21. The GDP has seen a marked sequential slowdown since the third quarter (Q3) of 2021 as base effect dissipated and business confidence weakened due to the global commodity market shock, a long regional drought and domestic political uncertainty in the run up to the August 2022 General Election. Business confidence however picked up in the wake of a smooth transition of power following a largely peaceful Presidential Election. While Kenya's growth prospects remain bright, emerging shocks are challenging the broad-based rebound.

In 2022, annual headline inflation averaged 7.6% compared to 6.1% in 2021. Generally, inflation adopted an upward bias in 2022, rising from 5.7% in December 2021 to 9.1% in December. This was mainly due to unfavourable weather conditions and high global commodity prices driven by disruption caused by the invasion of Ukraine by Russia in February 2022.

The Kenya shilling depreciated by 9% against the US Dollar by the end of December 2022. Rising interest rates in the United States, the elevated Dollar demand coupled by short supply contributed to the shilling's weakening.

The real estate industry recorded a bounce back after two years of a sharp drop during the Covid-19 pandemic. After five annual declines, the value of building plans registered a 35% increase as at October 2022 compared to annual figures for 2021. The retail sector, in particular, experienced several expansions and a few closures by anchor retailers. Despite the expansionary trend showed by most anchor tenants as they compete for prime spaces, the general performance and supply of malls in Kenya has been on the decline, with the focus shifting to convenience centres that are closer to residential neighbourhoods. Further, even as the much-anticipated normalcy slowly returned from 2021, the recovery rate has been slow. The negative effects of Covid-19, economic slowdown, geopolitics and election jitters experienced in 2022, continued to plague the retail sector over the short to medium term. Tenants continued to renegotiate rents, and we witnessed a drop in asking rents, especially in centres with high vacancies. Market rents remained flat or reduced, and vacancies on upper floors took longer to fill during the year under review.

For ILAM Fahari I-REIT, there was a significant improvement especially with regards to operations at Greenspan Mall. The anchor tenant at the mall opened their store in February 2022. With a trading anchor tenant in place, the average vehicle traffic have improved to pre-Covid numbers. The improvement was also attributable to the relaxation of Covid-19 restrictions and optimism of economic recovery. These have positively impacted renewal terms for expiring leases at the mall and hence held the asset value steady even at the brink of an elevated vacancy rate.

The REIT Manager also embarked on implementation of a new strategy approved by the Board of the REIT Manager as well as the Trustee. Part of the strategy involves operational restructuring of the REIT as well as disposal of the non-core assets. The process is still on-going and is subject to regulatory approvals.

On the financial performance, the net loss decreased significantly to KShs. 28.4 million from Kshs. 124.0 million in the comparative period. This was mainly due to increase in rental income resulting from the contribution of the anchor tenant at Greenspan Mall for the full year under review. In addition, the fair value loss on investment property decreased by 25% on the account of a stable Weighted Average Unexpired Lease Term (WAULT) of the property portfolio.

Distributable earnings increased by 39% to KShs. 141.9 million compared to KShs. 102.0 million in the comparative period. This was mainly due to revenue contribution from the anchor tenant at the mall for the full year under review compared to five months in the comparative period.

In light of the increased earnings, the Board recommended, and the REIT Trustee approved, a distribution of KShs 0.65 per unit which is 30% higher than the prior year. This is the first and final distribution which will be paid to unitholders no later than 30 April 2023. This amounts to a payout ratio of 83%.

## APPRECIATION

On behalf of the Board, I would like to thank the REIT Trustee and the Capital Markets Authority for the continuing support especially with regards to the ongoing implementation of the new REIT strategy. I also thank my fellow directors for their guidance, support and invaluable contribution in the Board. To the management team, thank you for a good year and for your dedication and diligence in managing the REIT's operations.

Of utmost importance to us are the unitholders who have continued to support, engage and challenge us as we put in our best efforts to improve the performance of and grow the REIT. For that, we are truly grateful.

**Andrew Ndegwa | Chairman, ICEA LION Asset Management Limited**
**Date: 28 March 2023**

ILAM FAHARI I-REIT

# REIT MANAGER’S BOARD OF DIRECTORS

## REIT MANAGER'S BOARD OF DIRECTORS

**ANDREW NDEGWA | Chairman**
Appointment Date: 18 May 2020

Andrew is the Executive Director of First Chartered Securities, a private investment holding company with interests in financial services, logistics, real estate, manufacturing and agriculture. He holds a Bachelor of Arts (Hons) degree in Philosophy, Politics and Economics from Oxford University.

Andrew began his career in the banking industry, and between 1990 and 1994 worked at Mercantile Finance Company, its affiliate The African Mercantile Banking Company and at Citibank Nairobi. He joined First Chartered Securities in 1994 as the Group Planning Manager and in 2000 was appointed to the Board as Executive Director. He is also a Non-Executive Director of several other companies, including NCBA Group Plc and Unga Group Plc, both of which are quoted on the Nairobi Securities Exchange.

Andrew is a trustee of Faraja Cancer Support Trust.

**EINSTEIN KIHANDA | Director & CEO - ICEA LION Asset Management Limited**
Appointment Date: 18 May 2020

Einstein holds a Bachelor of Science Degree in Business Administration (Accounting & Finance Major) from the United States International University (USIU) and a Master of Science degree in Management and Organisational Development from the same university. Einstein also holds a Master of Science degree in Finance from the University of Strathclyde in Scotland, U.K.

Einstein's experience in investment analysis, research and fund management spans over 22 years, having joined Equity Stockbrokers as a Research Analyst in February 1999 followed by a brief stint as Research Manager at Barclaytrust Investment Services shortly before its acquisition by Old Mutual. Einstein started his career in fund management in January 2002 when he joined ICEA Investment Services as Head of Portfolio Management Services and thereafter Old Mutual Asset Managers, CFC Stanbic Financial Services, Sanlam Investment Management Kenya and back to ICEA LION Asset Management Limited as Chief Investment Officer prior to being promoted to CEO in December 2015. Einstein also serves as a Director of ICEA LION Asset Management (Uganda).

Einstein is the Chairman of the Institute of Certified Investment and Financial Analysts (ICIFA) and is a past Chairman of the Fund Managers Association (FMA) where he serves in the Stakeholders Committee.

**PATRICK MUGAMBI | Alternate Director**
Appointment Date: 18 May 2020

Patrick is the Planning & Projects Director of First Chartered Securities Ltd, a private investment holding company with interests in financial services, logistics, real estate, manufacturing and agriculture.

Patrick holds a BSC in Business Administration from USIU and is a Certified Public Accountant and alumnae of IESE Business School. He is also a Member of the Institute of Certified Public Accountants of Kenya (ICPAK) and a Member of the Overseas Technical Scholarship (AOTS) Japan.

He previously worked for PricewaterhouseCoopers and Shell Exploration and Production Kenya BV between 1988 and 1992. Prior to his present position, he was the Executive Director and Chief Operating Officer of Mitchell Cotts Kenya Group until January 2006. Patrick is also a Non–Executive Director of Mitchell Cotts Group and a director of several other companies.

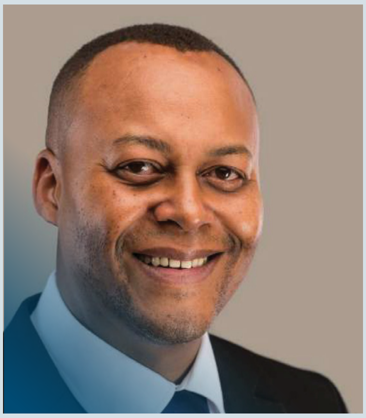
**STEPHEN MALLOWAH | Non-executive Director**
Appointment Date: 18 May 2020

Stephen Mallowah is a Commercial and Corporate Law partner with the prominent regional law firm TripleOKLaw LLP, based in Nairobi and undertaking projects across the region. He is also an Advocate of the High Court of Kenya.

He holds a Bachelor of Laws (Hons) degree from the University of Zambia and a Master of Laws Degree in Corporate and Commercial Law as a Chevening Scholar from the University of London. He also holds a Master of Science Degree in Oriental & African Studies from the same university and an Advanced Management Program from the IESE Business School. Stephen holds a Postgraduate Diploma from the Kenya School of Law.

Stephen has demonstrated his true mettle in several specialized areas of law. Examples include: Capital Markets and Financial Services – advising a large commercial bank on setting up a Unit Trust; Structured and Project Finance and Energy – advising a developer on delivering a 140MW geothermal power generation project; Mining, Oil and Gas – advising large multinationals in the extractives sector on legislative engagement on the Mining Act and Petroleum Act; Public Policy and Regulatory Compliance – advising a large telco on regulatory and compliance issues around the rollout of a suite of advanced digital service offerings .

He has taught law at the Kenyatta University, Catholic University of East Africa, the Kenya School of Law and the Kenya School of Monetary Studies among others. He is also a certified Corporate Governance Trainer with the Centre for Corporate Governance.



**KAIRO THUO | Non-Executive Director**
Appointment Date: 18 May 2020

Kairo is a consultant and a founder partner of Viva Africa Consulting LLP and Viva Africa Consulting Limited. He is both a lawyer and accountant by profession. He attended Strathmore and the University of Nairobi where he graduated with LLB (Hons) and is a CPA-K and CPA-T holder.

He was previously responsible for establishing and running the Tax Transaction Advisory Group at Deloitte and Touche as the Director of the unit, was responsible for mergers, acquisitions, transaction arrangements, wealth structuring and funds management as well as corporate and legal structuring. Kairo has extensive experience in all areas of taxation in Kenya, Uganda, Rwanda and Tanzania and other countries in Africa. His experience involved all areas of legal, finance and taxation and was also involved in establishment of specialised tax service lines in direct and indirect taxation including customs, international tax and transfer pricing.

Amongst many of his key achievements, Kairo remains the only individual to-date to be recognised by KRA in the annual taxpayers' awards for contribution towards tax education in Kenya having also been recognised by the IFC for outstanding tax advice contribution in the Kenya and Uganda Railways concession process. He also contributed to capacity enhancement for the East Africa Law Society and the Institute of Certified Public Secretaries of Kenya.

He also serves on the Boards of Kenya Power, Special Economic Zones Authority and NCBA Bank Kenya Plc.

**PAUL MUTHAURA | Non-Executive Director**
Appointment Date: 17 March 2022

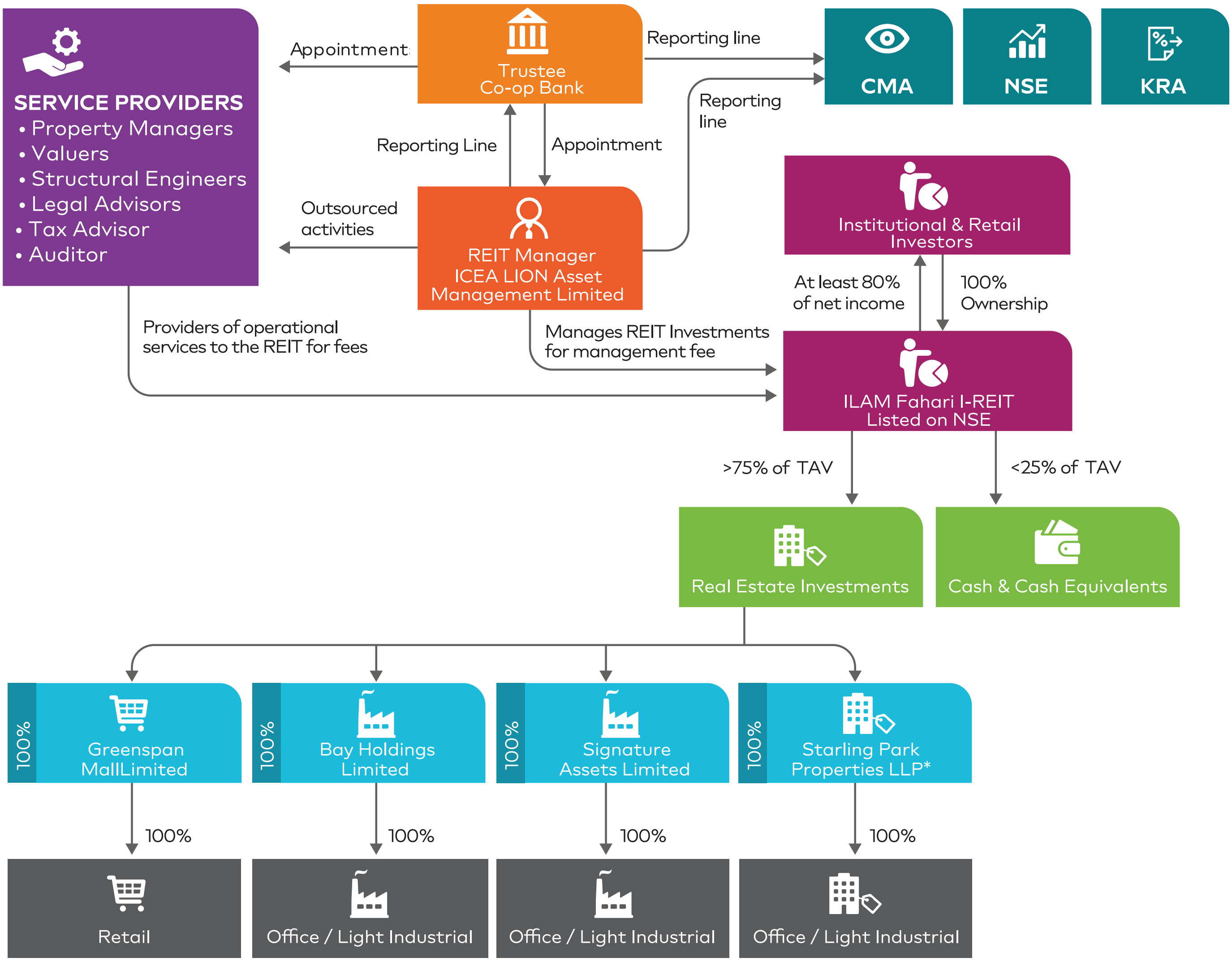
Paul holds a Bachelor of Laws from the University of Warwick, a Masters in Banking and Finance Law from the London School of Economics and Political Science and a Master of Philosophy from the Maastricht School of Management. He is an Advocate of the High Court of Kenya and an Honorary Fellow of the Institute of Certified Public Secretaries of Kenya (ICS-K). Paul is also an Academy of Executive Coaching (AoEC) Certified Executive Coach.

He is an independent consultant supporting on one hand, the development of capital markets in emerging African jurisdictions; On the other hand, he drives the twinning of realizable transitions to greater resilience, inclusion and carbon neutrality with the stimulation of economic value in developing economies. He is the Africa Chair for the Impact Infrastructure Commission; a Board Member of ICEA LION Asset Management; an Independent Board Member of the International Ethics Standards Board for Accountants (effective January 2023); an Independent Member of the Financial Sector Deepening Trust, Kenya; and a Member of the Securities Advisory Board of the Toronto Centre for Global Leadership in Financial Supervision.

He has previously been the Chief Executive Officer of ICEA LION General Insurance Kenya, the first African member of the Financial Stability Board TCFD insurer pilot group. Prior to that, he was the Chief Executive of the Capital Markets Authority of Kenya. In his term at CMA, he was the Africa and Middle East Regional Committee Chair on the Board of the International Organization of Securities Commissions (IOSCO); Chairman of the Consultative Committee of the East African Securities Regulatory Authorities; and a member of the Financial Stability Board (FSB) Regional Consultative Group for Sub-Saharan Africa.

In December 2017, Paul was awarded the National Honour of the Order of the Moran of the Burning Spear (MBS) by His Excellency the President of the Republic of Kenya for his services to the development, deepening and reform of the capital markets in Kenya.

## REIT STRUCTURE




* Greenspan Mall Limited holds 1% of the partnership interest in Starling Park Properties LLP in trust on behalf of ILAM Fahari I-REIT. No economic benefit flows to Greenspan Mall Limited as a result of this arrangement.

“ILAM Fahari I-REIT aims to provide consistent income and capital growth in the long term.Our active management approach targets quality physical properties within carefully chosen economically growing nodes.”


# REIT MANAGEMENT TEAM

**RAPHAEL MWITO**
**Chief Executive Officer: ILAM Fahari I-REIT**

Raphael is a seasoned Architect and Financial Analyst [CFA Charter holder] with over 18 years of experience in planning and design, real estate investment, development management and development. He has worked on a variety of prestigious projects as an architect, investment manager or development manager. He has led cross-functional teams to deliver varied prestigious projects as well as deliver on Profit & Loss targets.

Among the projects he has worked on include the Standard Group HQ on Mombasa Road, Langata Heights (240 apartments) for Laptrust; Mtwapa Heights for NIS; Garden City for Actis; Initial advice on Nairobi Gate for Actis; Holy Family Basilica Parking for Archdiocese of Nairobi and Somerset Westview Kilimani, the first and largest ground up serviced apartment in Nairobi for Britam.

He has also advised on the KES 10 billion Mixed Use Development in Eastleigh; repositioning of the ILAM Fahari I-REIT and the Musyi Affordable Housing Scheme in Kitui for a family business, among others, as well as a USD 250m mixed use scheme in Douala, Cameroon.

Raphael has also undertaken a lot of feasibility work, project financing and structuring work.

**BARACK OBATSA**
**Chief Investment Officer: ICEA LION Asset Management Limited**

Barack has several years of experience in the investment industry, with experience in both conventional and alternative assets including real estate. He has held various leadership positions and is currently the Chief Investment officer at ICEA LION Asset Management.

Barack holds a Bachelor of Science Degree in Financial Services, Master of Science in Finance (Economic Policy) and Master of Science Real Estate (Investment and Finance). Barack is a Chartered Banker, a Certified Internal Auditor and a Chartered Financial Analyst (CFA) from the CFA Institute. He is also a member of the Institute of Certified Investments & Financial Analysts- Kenya and the CFA Institute. He is also a member of the Royal Institution of Chartered Surveyors (MRICS).

Barack completed his Leadership Development program from Gordon Institute of Business Science, University of Pretoria in South Africa. Besides this, he has had opportunities to attend trainings across the world especially in the area of investments. Barack is a "Certified Engagement and Productivity Coach -(CEPC)" having successfully completed an ICF –Accredited Program of 60 ACSTH at CDI-Africa Coaching.

**RUTH OKAL**
**Property Asset Manager: ILAM Fahari I-REIT**

Ruth has 19 years' industry experience and is responsible for optimizing ILAM Fahari I-REIT's real estate portfolio through market research, data analysis, revenue forecasting and industry reporting to inform business decisions. She holds an MA in Property Management and Valuation and a BA in Land Economics both from University of Nairobi, and has been instrumental in the originating, negotiating and closing of many property transactions. Ruth is both a registered Valuer and Registered Estate Agent. She has completed CFA Level 2.

Ruth joined STANLIB Kenya Limited in 2013 from Knight Frank Kenya Limited, where she gained experience within Commercial Agency, Property Management, Valuation, Market Research, Feasibility Studies and Development Advisory. She is a member of the Valuers Registration Board.

**IRENE MALOBA**
**Finance Manager: ILAM Fahari I-REIT**

Irene has over 10 years of experience in the financial sector. She is adept at budget forecasting, financial planning, financial reporting and analysis, treasury operations as well as banking. She is responsible for evaluating the company's performance, risk management and financial reporting. Prior to joining ILAM Fahari I-REIT, Irene worked as a Management Accountant at Centum Investment Company Plc, the largest investment firm in East Africa where she was responsible for financial reporting and analysis for the Holding Company as well as Two Rivers Development and its subsidiaries. Before joining Centum, Irene spent over three years at Equity Group Holdings Limited where she developed her career in Finance. She was in charge of the finance department of Equity Investment Bank at the time of exit.

Irene holds a Master of Science in Finance from the University of Nairobi and a Bachelor's degree in Business Management (Finance and Banking) from Moi University. She is a Certified Public Accountant of Kenya and a member of ICPAK.

**MAUREEN MUGAMBI**
**Financial Accountant: ILAM Fahari I-REIT**

Maureen has over 7 years of experience in the finance sector. She is well-versed in financial reporting, cash flow management, budgeting and treasury management. At ILAM Fahari I-REIT, she is charged with preparation, compiling and presentation of financial data for the REIT and the four subsidiaries.

Before joining ILAM Fahari I-REIT, Maureen worked as a Financial Accountant at Centum Investment Company Plc where she was responsible for financial reporting, budgeting and analysis of the subsidiary companies. Maureen holds a Bachelor of Commerce degree in Finance from Jomo Kenyatta University of Agriculture and Technology (JKUAT). She is also a student with the Association of Chartered Certified Accountants (ACCA).

**OLGA OMALLA**
**Risk and Compliance Manager: ILAM Fahari I-REIT**

Olga has over 13 years' experience in legal and compliance matters. As the Legal and Compliance Officer for ILAM, she is in charge of regulatory compliance, drafting and reviewing legal documents, ensuring compliance and adherence to client mandates as well as facilitating all legal correspondence for the company. She joined ILAM in 2009 and previously worked at a law firm in Kenya under the Commercial and Corporate Division.

Olga is qualified as an advocate of the High Court of Kenya and holds a Bachelor of Law degree from the University of Nairobi, a Post Graduate Diploma from the Kenya School of Law, a Post Graduate Certificate in Commercial and Corporate Law from the University of London, a Post Graduate Diploma in Financial Services Law from the University of London and a Masters in Law from the University of London in Financial Services Law. She is also a Certified Professional Mediator and a Certified Retirement Benefits Scheme Trustee under Kenyan Law.

ILAM
FAHARI I-REIT

# CORPORATE GOVERNANCE

## STATEMENT OF COMPLIANCE

ICEA LION Asset Management, the duly licensed REIT Manager for the ILAM Fahari I-REIT has ingrained corporate governance as the pivotal framework, through which its strategic objectives are set, attained and its performance monitored. The Board of the REIT Manager has and continues to put in measures to ensure compliance with the key principles as set out in the Capital Markets (Corporate Governance) (Market Intermediaries) Regulations, 2011, the Capital Markets (Licensing Requirements) (General) Regulations, 2002 and the Capital Markets (Code of Business) (Markets Intermediaries) Regulations, 2011 as well as the ethical standards prescribed in the Company's Code of Conduct. In any instances of non-compliance, the REIT Manager takes proactive measures to ensure that the same is remedied as soon as practically possible.

The REIT in its enviable position as the first income real estate investment trust to be listed on the Nairobi Securities Exchange, has and continues to actively participate in policy review forums as well as other industry forums aimed at bringing about key reforms. One of the notable contributions include active participation on the issue of taxation of Kenyan REITs which will go a long way in enabling the success of REITs as an investment product in this market.

The Board of the REIT Manager is committed to the principles of good governance and appreciates the importance of managing the affairs of the REIT with integrity, accountability fairness, responsibility, and transparency to all stakeholders.

The Board of the REIT Manager is responsible for maintaining a system of internal control and for reviewing its effectiveness regularly to ensure that the assets of the REIT are safeguarded. Further the Board has an obligation to maintain a reliable system of managing financial information, so that the REIT scheme objectives of providing unitholders with stable annual cash distributions, improving and maximizing unit value are met.

## BOARD SIZE, COMPOSITION AND APPOINTMENTS

The Board comprises of six members made up of a non-executive Chairman, four non-executive directors and one executive managing director. The non-executive directors are required to demonstrate complete independence in character, judgment and action in fulfilling their duties.

A member of the Board shall retire once they get to the age of 70 years.

## SEPARATION OF POWERS AND DUTIES OF THE CHAIRMAN AND MANAGING DIRECTOR

The separation of functions between the Chairman (a non-executive director) and managing director (executive director) ensures independence of the Board and Management.

The Chairman's responsibilities include leading and governing the Board, setting its agenda and ensuring its effectiveness. The Managing Director's roles and responsibilities include the day-to-day management of the REIT Manager's business and overseeing the implementation of strategy and policies approved by the Board.

The Chairman is required by the Board to ensure that the Managing Director is able to implement the REIT's objectives as agreed by the Board of the REIT Manager.

## ROLE OF THE BOARD

The Board offers strategic guidance, leadership and control of the REIT Manager by defining its strategic intent, its objectives and values; reviews this strategic direction and adopts business plans proposed by Management. The Board monitors Management's implementation of the plans and strategies, ensures ethical behaviour and compliance with relevant laws and regulations, audit and accounting principles, corporate policies and procedures and the Code of Ethics.

## TRAINING AND PERFORMANCE EVALUATION

The Board of the REIT Manager is focused on continued improvements in its effectiveness and corporate governance performance. On-going training is provided to members of the Board to enable them to fulfil their duties. New members of the Board are provided with an induction programme, where required, to acquaint them with the business.

An evaluation is done from time to time to identify any training needs.

The Board reviews its own performance at least once a year to ensure it is operating at maximum effectiveness.

## BOARD DIVERSITY

The Board of the REIT Manager has the appropriate mix of skills, knowledge and experience to perform its role effectively. The areas of expertise of the current Board of directors are asset management, strategy, business management, banking and finance, economics, marketing, project management, risk management, governance, legal and ethics among others. The directors' biographies appear on page 8 to 10 of this Annual Report.

## AUDIT AND RISK COMMITTEE (ARC)

The Board of the REIT Manager has established the Audit and Risk Committee (constituted as a sub-committee of the Board). As at 31 December 2022, the Committee's composition constituted of three non-executive directors, the Chairman being an independent non-executive director.

The mandate and scope of responsibilities of the Committee is aligned with the Capital Markets Authority's Code of Corporate Governance. The mandate of the Audit Committee inter alia includes:

- Review and approve the execution of the approved investment strategy from time to time.
- Set criteria and targets for investment, including asset mixes and/or allocations.
- Oversight over the strategic direction of the REIT; making decisions on purchasing, developing and selling of properties within the limits of this Mandate and the CMA REIT's Regulations.

The Committee has an independent role with accountability to the Board, the REIT Trustee and unitholders. The Committee does not assume the functions of management, which remain the responsibility of the REIT management team and the executives of ICEA LION Asset Management Limited.

The Committee held four (4) meetings which were attended by all the Members in line with the Committee Mandate.

## COMPANY SECRETARY

The Company Secretary is the chief legal and governance advisor to the Board and co-ordinates the Board work plan, meetings as well as manages communication between the organization and shareholders.

## DIRECTORS UNITHOLDING

Directors can purchase or sell units of the REIT in the open market. In the financial year under review none of the directors held REIT units, in their individual capacity.

## BOARD MEMBERS' MEETINGS

There are four scheduled Board meetings per year. Ad-hoc meetings can be convened, as and when required, by the secretary, at the request of the Chairman. Below is the attendance roster for the year under review.

| Board Member | Classification | 17th March 2022 | 15th June 2022 | 21st Sep 2022 | 24th Nov 2022 |
|---|---|---|---|---|---|
| Andrew Ndegwa | Non-Executive Chairman | ✓ | ✓ | ✓ | ✓ |
| Einstein Kihanda | Executive Director | ✓ | ✓ | ✓ | ✓ |
| Patrick Mugambi | Non- Executive Director | ✓ | ✓ | ✓ | ✓ |
| Stephen Mallowah | Non- Executive Director | ✓ | ✓ | ✓ | ✓ |
| Kairo Thuo | Non- Executive Director | ✓ | ✓ | ✓ | ✓ |
| Paul Muthaura* | Non- Executive Director | X | ✓ | ✓ | ✓ |
| George Nyakundi** | Non- Executive Director | ✓ | ✓ | ✓ | X |
| Dr. Caesar Mwangi*** | Non- Executive Director | ✓ | ✓ | X | X |

*Paul Muthaura was appointed as a director on 17th March 2022.
** George Nyakundi resigned as a director on 21st September 2022.
***Dr. Caesar Mwangi resigned as a director on 28th July 2022.

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# RISK MANAGEMENT

The REITs Regulations require the REIT Manager to report on identified risks likely to impact on the future performance of the REIT Scheme and its capacity to fulfil its objectives.

## KEY RISKS

### Industry Specific Risks

As is common in other investment classes, property goes through different performance cycles and trends affected by several factors including socio-economic and regulatory changes. Any changes in property industry dynamics may impact growth trends. However, experience in other markets suggests that I-REITs that invest in portfolios of high-quality investment properties provide sustained returns and operating performance even in a less favourable market environment of slower growth in rental incomes and property values for the industry as a whole.

### Title

Weaknesses in land title and rental lease registration can adversely impact the operations of REIT Schemes.

All I-REIT Schemes are dependent on the certainty of the title to the properties and enforceability of rental lease agreements. Uncertainty of title presents the risk of (i) delays in completion of the purchase of properties until titles and leases are regularized, and (ii) delays in enforcement of lease contractual arrangements both of which could have adverse impacts on the business, financial condition and results of operations of I-REITs.

As a mitigating factor, the ILAM Fahari I-REIT's policy is to conduct a thorough due diligence on properties to be purchased and to require the current owners to regularize titles and leases before the purchases are completed.

### Regulatory Compliance

One of the key risks that emerged in the Kenyan property market in 2018 is the demolishing of property built on riparian land or road reserves leading to significant financial loss to affected property owners.

As a mitigating factor, the ILAM Fahari I-REIT performs thorough due diligence prior to any property acquisition including compliance with laws and regulations. In future, greater focus will be put on ensuring that properties purchased are not built on riparian land or road reserves.

### Terrorism

The terrorist attack on the Dusit D2 Hotel in Riverside, Nairobi in January 2019 was another reminder of the vulnerability of physical property to destruction which could lead to business disruption and to financial loss.

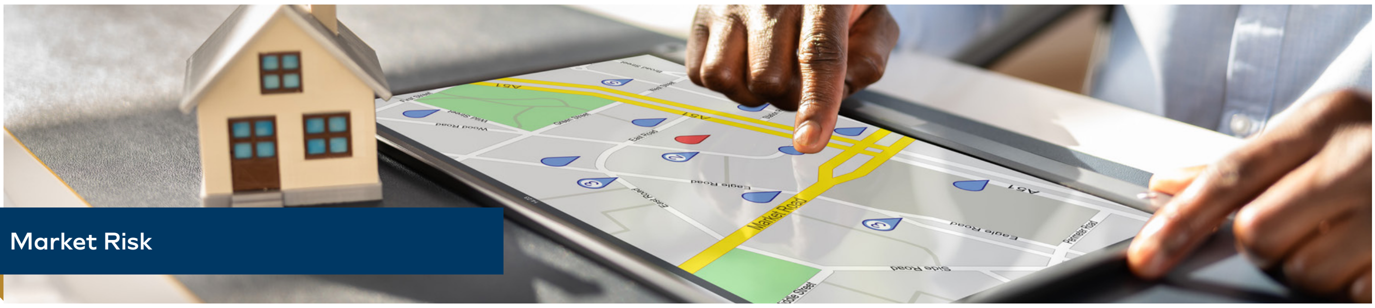
As a mitigating factor, the ILAM Fahari I-REIT ensures that adequate insurance cover is in place to safeguard against physical damage to property and loss of revenue as a result of any resultant business interruption. In addition, security upgrades and procedures are being undertaken in the vulnerable properties in the portfolio to minimise the risk of malicious attacks.

### Risks common to traded REIT Securities

REIT units traded on the NSE and the prices are subject to securities market volatility, reflecting demand and supply conditions, just like other listed securities. The price obtainable on sale of a REIT unit on a public exchange can go up or down and may differ from the reported NAV per REIT unit. The price of the REIT Scheme units will generally reflect prospective investors' confidence in Kenya's economy, the property market and its returns, the REIT Scheme management and interest rates.

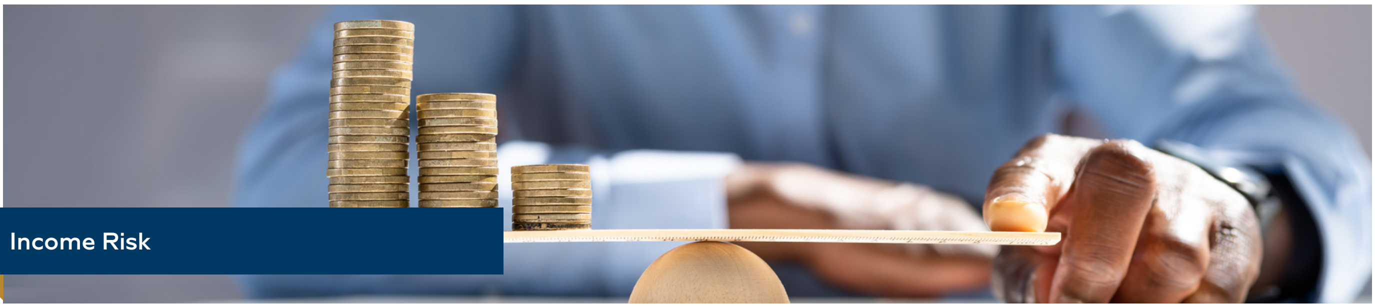
## Risks associated with the ILAM Fahari I-REIT Structure

### Market Risk



The underlying asset value of ILAM Fahari I-REIT's properties may be impacted by fluctuations in supply and demand for the type of rental properties that the REIT has invested in. ILAM Fahari I-REIT's reported financial results may be affected by losses recognised on the revaluation of investment properties being charged to the profit or loss statement. The REIT prepares its financial statements in accordance with IFRS. As currently permitted by IFRS, investment properties held to earn rentals and for capital appreciation are stated at annual valuation performed by independent professional valuers on an open market value for existing use basis. Any revaluation surpluses or deficits arising from the revaluation of investment properties are reflected in the profit or loss statement.

The REIT Manager mitigates the impact of these risks on ILAM Fahari I-REIT's underlying asset values and operating performance by applying a careful investment evaluation process to help ensure that the seed properties selected and new Eligible Assets that the ILAM Fahari I-REIT may invest in the future are in line with the REIT's stated investment philosophy and objectives and meet the minimum investment return criteria.



## Income Risk

Rental income earned from, and the value of, ILAM Fahari I-REIT's investment properties may be adversely affected by a number of factors and distributions may not be made if the REIT reports an operating loss. Reduction in reported rental income and operating profits may arise, for example, if tenancy agreements of the underlying properties are renewed at a lower rental rate than the previous agreement or if the occupancy rate falls. This in turn, reduces property income and ILAM Fahari I-REIT's ability to recover certain operating costs such as service charges. Other factors could include changes in the REIT's ability to collect rent from tenants on a timely basis or at all; changes in laws and governmental regulations in relation to real estate, including those governing usage, zoning, taxes and government charges. Such revisions may lead to an increase in the management expenses or unforeseen capital expenditure to ensure compliance. Rights related to the relevant properties may also be restricted by legislative actions, such as revisions to the building standards laws or the city planning laws, or the enactment of new laws related to construction and redevelopment.

The REIT Manager mitigates the impact of such factors by implementing portfolio specific strategies and operational initiatives. These include activities such as: income flow management; lease audit and data integrity review; vacancy management and leasing strategy; review of lease structures; and cost optimization management. In particular, the leasing strategy includes procuring of payment upfront and contractual lock-ins of rental rates and other clauses in tenancy agreements.

## Securities Liquidity Risk

The ILAM Fahari I-REIT is the first I-REIT to have its units listed on the NSE. As with other listed securities listing and quotation does not guarantee that a highly-liquid trading market for the units will remain strong.


## Regulatory Risk

Changes to the regulatory framework applicable to a REIT could impact the REIT's financial performance and after-tax returns to unitholders. The ILAM Fahari I-REIT is subject to the REITs Regulations and the regime governing I-REITs in Kenya remains relatively new.

Future changes may occur in laws and regulations that impact the REIT Scheme. Alternatively, there may be changes to enforcement or regulatory interpretation of laws leading to changes in the legal requirements affecting the REIT Scheme.

The REIT Manager mitigates this regulatory risk by participating actively in industry forums to discuss and debate potential regulatory changes and their potential impact.

### Tax Risk

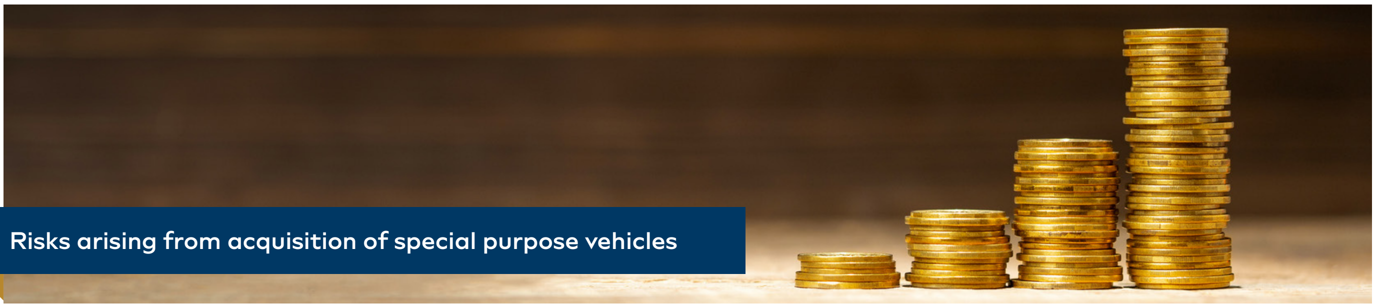
At the establishment of the ILAM Fahari I-REIT, the REIT was and still is exempt from income tax in line with section 20(1)(c) of the Kenyan Income Tax Act, however, the REIT wholly owned subsidiaries were not explicitly exempt. In November 2019, the Finance Act No.23 of 2019 introduced section 20(1)(d) to the Kenyan Income Tax Act to exempt investee companies of REITs from income tax. This development in the tax regulations removed the long-standing uncertainty as to the exemption status of the ILAM Fahari I-REIT subsidiaries.

The REIT is required to distribute at least 80 percent of its distributable income to its unitholders annually. Failure to distribute at least 80 percent of its distributable income to unitholders, changes to the interpretation of current tax laws and any new laws and regulations that may be introduced in the future could adversely impact the tax liability of the REIT Scheme. Such changes may reduce income, distributions and unitholder returns.

Finance Act 2022 increased the Capital Gains Tax from 5% to 15% effective 1 January 2023. The KRA confirmed that organizations that are exempted from income tax, such as registered REIT Schemes, will not be subjected to Capital Gains Tax. Consequently, the increase in Capital Gains Tax is not expected to negatively impact the return and distribution of any capital gains achieved on the underlying properties acquired by the REIT Scheme, should it divest its interest in these properties and realize a capital gain.

The REIT Manager and Trustee mitigates these tax risks by, firstly, monitoring and taking proactive action to help ensure that the REIT remains compliant with tax registration requirements, secondly, ensuring that at least 80 percent of the distributable income of the REIT is distributed to unitholders and, thirdly, by participating actively in industry forums to discuss and debate proposed changes to the tax legislation. The REIT Manager is also extensively involved, alongside industry bodies such as the REITs Association of Kenya, in lobbying for the required tax reforms affecting REITs in Kenya to be duly implemented.

## Risks associated with the Scheme's Proposed Investment Portfolio



### Risks arising from acquisition of special purpose vehicles

The ILAM Fahari I-REIT has and continues to acquire investment properties through the purchase of shares in limited liability companies or partnerships (special purpose vehicles) that own underlying investment properties rather than purchasing the underlying properties directly. As is common with acquisitions of this type, the REIT's policy is to complete due diligence on any such company it wishes to purchase. Further, the REIT's policy is to enter into contractual arrangements that include obligations for the vendor to identify and settle liabilities of the target company prior to the sale and to provide certain, limited, ability for the REIT and the target company to make claims against the vendors in the event that they suffer losses relating to pre-acquisition liabilities and claims that may only come to light and crystallize after the acquisition.

However, there remains a residual risk that the REIT may not be able to claim full reimbursement for the losses that it might suffer in respect of such pre-acquisition liabilities and claims that are identified and crystallize after the acquisition because of contractual limitations and because the REIT may be unable to collect claim reimbursements on a timely basis or at all.

The REIT Manager mitigates this risk by ensuring that it monitors liabilities and claims against the companies that the Scheme purchases carefully and puts in place appropriate processes to identify potential claims, to submit claims and to follow up and collect such claims.

ILAM
FAHARI I-REIT

# SUSTAINABILITY REPORT

## PHILOSOPHY

Sustainable development is core to delivering on our growth objectives. Underpinning our corporate philosophy and growth path is an appreciation that our growth drivers cannot be achieved effectively without a committed focus to sustainable development.

Our Social and Environmental Management System (SEMS) provides guidance during the investment decision-making process and on-going management of projects. Compliance with the SEMS is a condition for all investments.

## ONGOING EVALUATION OF ENVIRONMENT AND SOCIAL STANDARDS

The REIT procures the services of an independent environment and social governance specialist to evaluate and monitor compliance with the REIT's environment and social standards. The 2022 evaluation was conducted by Environmental Business Strategies Kenya Limited ("EBS"). The same applies to the previous financial years.

## ENVIRONMENTAL DATA

| | UNIT | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| **ENERGY CONSUMPTION*** | KShs | 22,041,371 | 22,893,763 | 20,997,105 | 20,438,375 | 19,841,112 |
| **WATER CONSUMPTION*** | $m^3$ | 75,912 | 60,812 | 46,133 | 44,361 | 45,923 |
| **WASTE GENERATION** | **TONNES** | | | | | |
| **Greenspan Mall** | | 588 | 614 | 422 | 130 | 472 |
| **67 Gitanga Place** | | 358 | 204 | 96 | 138 | 122 |

*Greenspan Mall only

## REFLECTING ON 2022

| **GREENSPAN MALL** | |
|---|---|
| **E&S Area** | **DETAILS** |
| **Response to Covid-19** | The Mall continued to comply with guidelines for Covid-19 including:<br>• Monthly sanitization of all common areas<br>• Strategic placement of hand wash basins at the gates to enable pedestrians wash their hands before entering the building.<br>• Installation of sanitizer dispensers within the walkways and entrance to the lifts. |
| **Major repairs and maintenance works** | In 2022, the management undertook extensive improvements to the firefighting system in the Mall which included the overhaul of the fire and sprinkler system in the basement, providing a dedicated tank and pump for the fire system, and establishing fire stops on each floor and testing and repairing the fire line.<br><br>Other repairs and maintenance works undertaken include: repair of cracks on the expansion joints, water proofing of the roof, water proofing in the basement to address water logging, replacement of gutters and downpipes, repainting of the façade among others. |
| **Waste management** | Tenants have been encouraged to segregate their waste at source as opposed to relying on the waste contractors to do so. As a result, there has been a marked improvement in the management of solid waste including efforts at segregation and other housekeeping practices. |

| E&S Area | DETAILS |
|---|---|
| **Safety audits** | In 2022, the Mall undertook a number of assessments related to the Environmental and Social aspects including statutory safety and Health Audit, an environmental Audit and Fire safety assessment in line with key legislation, namely, the Environmental Management and Coordination Act (EMCA), 2015 and legal notice 101 of 2003, section 7(1) of Occupational Safety and Health Act (OSHA), 2007 and section 36 of the Fire Risk Reduction Rules 2007 respectively. The Audits found that the Mall is compliant with regulations. |

**GITANGA PLACE**

| E&S Area | DETAILS |
|---|---|
| **Response to Covid-19** | The tenant continued with stringent measures to prevent the spread of the Covid-19 which include but not limited to monthly sanitization, restricted access to the building, routine maintenance and cleaning. |
| **Safety audits** | Lift and escalator safety audits continued to be conducted by registered and approved inspectors. The same applies to fire and workplace safety audits. |

## STATUS ON 2022 PRIORITIES

| Property | E&S Area | Status | Details |
|---|---|---|---|
| **Greenspan Mall** | Repainting of the façade | ✓ | Done |
| | Water proofing of the roof | ✓ | Done |
| | Overhaul of the fire system including sprinkler system | ✓ | Done |
| | Repairs of expansion joints | ✓ | Done |
| | Improvement of cable trays to enable data cable management | X | Almost complete |
| | Water proofing in the basement and address water logging | X | Almost complete |
| **67 Gitanga Place** | Emergency drill | X | Pending |
| | Conduct a baseline risk assessment on the building | X | Ongoing |
| | Develop a risk register | X | Ongoing |

## FOCUS IN 2023

| Property | E&S Area |
|---|---|
| **Greenspan Mall** | Consider water recycling – grey water reuse<br>Implement recommendations made in the risk assessment<br>An updated risk register<br>Revamping the gardens<br>Repainting of the interior |
| **67 Gitanga Place** | Emergency drill<br>Risk register |
| **Bay Holdings** | Fire safety policy and rectification of fire safety related issues |


# REPORT OF THE REIT MANAGER

The REIT Manager submits its report together with the audited financials for the year ended 31 December 2022, which reflects the state of affairs of the REIT. This report has been prepared in line with the requirements of the Fifth Schedule of the Regulations. The REIT Manager's report and the financial statements have been approved by the Trustee.

## NATURE OF BUSINESS

The ILAM Fahari I-REIT is a real estate investment trust licenced under the REITs Regulations. The REIT was authorised by the Capital Markets Authority on 30 September 2015 and became the first REIT in East Africa. It later became listed on the Nairobi Securities Exchange on 26 November 2015, raising capital of KShs. 3.6 billion. The REIT's duration is a maximum of 80 years subject to the provisions of the Trust Deed. The REIT Scheme is a closed ended Scheme and trades as "FAHR" on the Nairobi Securities Exchange ("NSE").

The principal activities of the REIT include but are not limited to:

- The acquisition, for long-term investment, of income-generating eligible real estate and eligible investments, but not limited to housing, commercial and other real estate;
- Undertaking of such development and construction activities as may be permitted by the Capital Markets Act, Chapter 485A of the Laws of Kenya and the REITs Regulations; and
- Investing in cash, deposits, bonds, securities and money market instruments.

## SCHEME'S OBJECTIVES AS AT THE DATE OF THE REPORT AND ANY CHANGES SINCE LAST REPORT

The objectives of the REIT Scheme have not changed since the last report. The primary objective of the REIT Scheme is to provide unitholders with stable annual cash distributions from investment in a diversified portfolio of income generating real estate assets.

A further objective is to improve and maximise unit value through the on-going management of the REIT Scheme's assets, future acquisitions and the development of additional income producing real estate assets within regulatory limits.

## DIRECTORS OF THE REIT MANAGER

The directors of ICEA LION Asset Management Limited who served during the period under review are:

| Director's Name | Role | Appointment/(resignation date) |
|---|---|---|
| **Andrew Ndegwa** | Non - Executive Chairman | Appointed 18 May 2020 |
| **Einstein Kihanda** | Chief Executive Officer | Appointed 18 May 2020 |
| **Patrick Mugambi** | Non - Executive Director | Appointed 18 May 2020 |
| **Stephen Mallowah** | Non - Executive Director | Appointed 18 May 2020 |
| **Kairo Thuo** | Non - Executive Director | Appointed 18 May 2020 |
| **Paul Muthaura** | Non - Executive Director | Appointed 17 March 2022 |
| **George Nyakundi** | Non - Executive Director | Resigned 21 September 2022 |
| **Dr. Caesar Mwangi** | Non - Executive Director | Resigned 28 July 2022 |

## ACQUISITIONS

### Acquisitions during the period

During the period under review, the REIT did not acquire any eligible real estate assets.

### Real estate assets contracted for purchase or sale

At time of report date, no real estate assets were contracted for purchase or sale.

### Compliance with Regulation 66

The Scheme completed the acquisitions of the nominated real estate investment (seed assets) within regulatory limits.

### Other non-direct real estate assets

Other than the assets mentioned in this report, the REIT does not hold any other non-direct real estate assets.

## BUSINESS REVIEW

### Performance highlights

| Details | 2022 | 2021 | Change |
|---|---:|---:|---:|
| **Net loss for the year (KShs)** | (28,363,591) | (123,951,010) | 77% |
| **Rental and related income (KShs)** | 354,291,682 | 297,549,052 | 19% |
| **Property expenses** | 131,271,761 | 122,048,628 | -8% |
| **Fund operating expenses** | 112,092,872 | 107,499,674 | -4% |
| **Fair value adjustment** | (170,312,110) | (225,924,281) | 25% |
| **Distributable earnings (KShs)** | 141,948,519 | 101,973,271 | 39% |
| **Market value of property portfolio (KShs)** | 3,118,600,000 | 3,258,000,000 | -4% |
| **Net asset value per unit (KShs)** | 18.92 | 19.58 | -3% |
| **Distribution per unit (KShs)** | 0.65 | 0.50 | 30% |

Net loss decreased significantly to KShs. 28.4 million from KShs124.0 million in the comparative period. This was mainly due to increase in rental income resulting from the contribution of the anchor tenant at Greenspan Mall for the full year under review. In addition, the fair value loss on investment property decreased by 25%. The reduction is mainly attributable to Greenspan Mall (representing 70.6% of the property portfolio) recording the lowest fair value loss of KShs 30.5million (2021: KShs 200.3 million) on the account of a stable Weighted Average Unexpired Lease Term (WAULT) of 4.33 years. This was, however, offset by the significant fair value loss on Starling Park Properties of KShs 125.8 million (2021: KShs 5.8 million) resulting from a low WAULT of 0.5 years. The property is single tenanted and the current lease will expire in May 2023. The property rent per sq. ft. is also expected to revert to market upon lease expiry.

Distributable earnings increased by 39% to KShs. 141.9 million compared to KShs. 102.0 million in the comparative period. This was mainly due to revenue contribution from the anchor tenant at Greenspan mall for the full year under review compared to five months in the comparative period.

Rental and related income increased by 19% mainly for the reason given above.

Property expenses increased by 8% mainly due to the cost of major refurbishments works undertaken at Greenspan Mall.

Fund operation expenses increased by 4% mainly due to the expenses incurred towards the on-going operational restructuring.

## DISTRIBUTION

The REIT Manager has recommended, and the Trustee has approved, a first and final distribution of KShs. 117,631,995 in respect of the year ended 31 December 2022 (2021: KShs. 90,486,150). The distribution was declared out of distributable earnings and met the requirements of a minimum distribution in terms of the REITs Regulations, which require that a minimum of 80% of net profit after tax, from sources other than realised gains from disposal of real estate assets, is distributed.

The table below outlines the distribution as a percentage of distributable earnings:

| Details | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| **Distributable earnings (KShs)** | 141,948,519 | 101,973,271 | 134,420,916 | 144,034,195 | 127,885,294 |
| **Minimum distribution per Trust Deed and Regulations (80%)** | 113,558,815 | 81,578,617 | 107,536,733 | 115,227,356 | 102,308,235 |
| **Distribution (KShs)** | 117,631,995 | 90,486,150 | 108,583,380 | 135,729,225 | 135,729,225 |
| **Distribution as a % of distributable earnings (%)** | 83 | 89 | 81 | 94 | 106 |
| **Weighted average units in issue (number)** | 180,972,300 | 180,972,300 | 180,972,300 | 180,972,300 | 180,972,300 |
| **Distributable earnings per unit (KShs)** | 0.78 | 0.56 | 0.74 | 0.80 | 0.71 |
| **Distribution per unit (KShs)** | 0.65 | 0.50 | 0.60 | 0.75 | 0.75 |

The proposal of the distribution by the REIT Manager occurred after the end of the reporting period ended 31 December 2022 resulting in a non-adjusting event that is not recognised in the financial statements. The Regulations require that the distribution is paid by no later than 30 April 2023.

## TRUST CAPITAL

The REIT has 625,000,000 authorised units at a nominal value of KShs. 20 per unit. Through an initial public offer that took place in October 2015, the REIT issued 180,972,300 units at a nominal value of KShs. 20 per unit raising a total of capital of KShs. 3,619,446,000. This has been reduced by transaction costs of KShs. 139,905,255 on issue of units.

## DIRECTORS OF THE REIT MANAGER'S INTEREST IN THE ISSUED UNITS OF THE REIT

In the financial year under review none of the directors held REIT units, in their individual capacity.

## GOING CONCERN

The annual financial statements have been prepared using appropriate accounting policies consistent with those applied at the last report, supported by reasonable and prudent judgments and estimates. The REIT Manager has a reasonable expectation based on an appropriate assessment of a comprehensive range of factors, that the REIT has adequate resources to continue as a going concern for the foreseeable future and at least for the next twelve months from the date of this report.

Furthermore, the REIT Manager has assessed the potential impact of the Covid-19 pandemic on its ability to continue as a going concern. Having considered the inevitable economic fallout from the pandemic, the REIT Manager has a reasonable expectation, supported by the strength of its liquidity, that the REIT has adequate resources to continue as a going concern for the foreseeable future and at least for the next twelve months from the date of this report.

## BRIEF STATEMENT OF BORROWINGS AND FINANCIAL ARRANGEMENTS

The REIT has not entered into any borrowings or financial arrangement in the period under review.

## AUDITORS

The REIT's auditor, KPMG Kenya, continues in office in line with the requirements of the Regulations.

## REIT MANAGER'S OPERATIONAL REVIEW

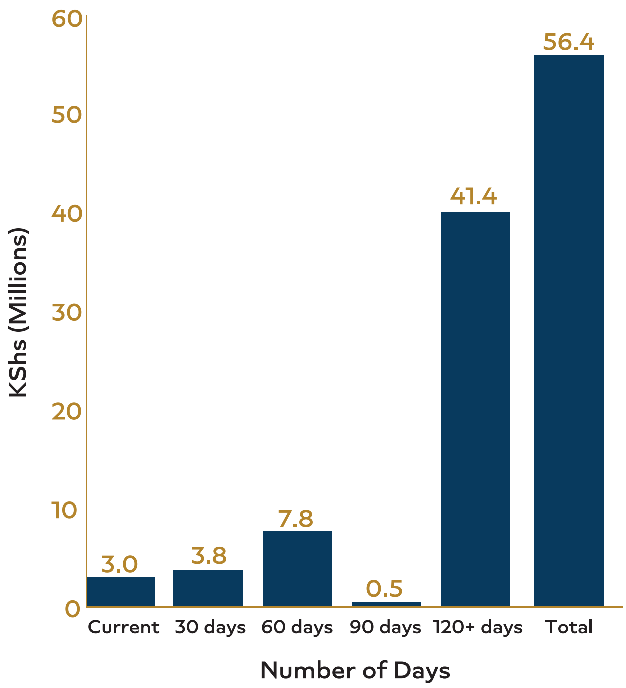
2022 was a good year for the REIT with an anchor tenant at Greenspan Mall opening their store in February. With a trading anchor tenant, the average vehicle traffic (over 40,000 vehicles per month) and footfall (averaging over 50,000 feet per week) have improved to pre-Covid numbers. The improvement was also attributable to the relaxation of Covid-19 restrictions and optimism of economic recovery. These have positively impacted renewal terms for expiring leases at the mall and hence held the asset value steady even at the brink of an elevated vacancy rate.

The REIT Manager also embarked on implementation of a new strategy approved by the Board of the REIT Manager as well as the Trustee. Part of the strategy involves operational restructuring of the REIT as well as disposal of the non-core assets. The process is still on-going and is subject to regulatory approvals. In addition, the REIT Manager undertook major refurbishment works at Greenspan Mall to improve the condition of the building and maintain it for long term investment and returns. Besides the above, the REIT Manager continued to perform strategic and operational functions in managing the property portfolio and cash reserves in order to ensure effective long-term management of the REIT to deliver investor returns and comply with regulatory and legislative requirements:

- Redefining and implementation of the portfolio strategy, which manages risk through portfolio diversification and seeks to deliver appropriately risk-adjusted returns through superior asset allocation and selection;
- Cash management (all cash collected from rentals continues to be invested in a diversified portfolio of near-cash instruments, in line with a dedicated Investment Policy Statement ("IPS"), to ensure optimal returns with minimal exposure to financial-sector risk);
- Liquidity planning (once the cash is optimally invested, sufficient liquidity is available to make payments when due);
- Efficient use of capital at the subsidiary level, through management of capital expenditure to improve core asset value;
- Deal management - ensuring that risk is managed and obligations are met through to deal execution;
- Investigation of redevelopment opportunities in the existing portfolio to maximise property returns;
- Managing properties in accordance with their specific property strategies (which guide the composition of tenant mix and execution of leasing strategy) such that net income and capital growth at a property level is optimised, in a manner that is aligned to the fund strategy;
- Debtors' management – implementing stringent debt collection policies and procedures that ensure delinquent tenants are managed proactively to minimise impairment risk.
- Management of service providers, such that their delivery is aligned to property-level as well as portfolio-level strategy.

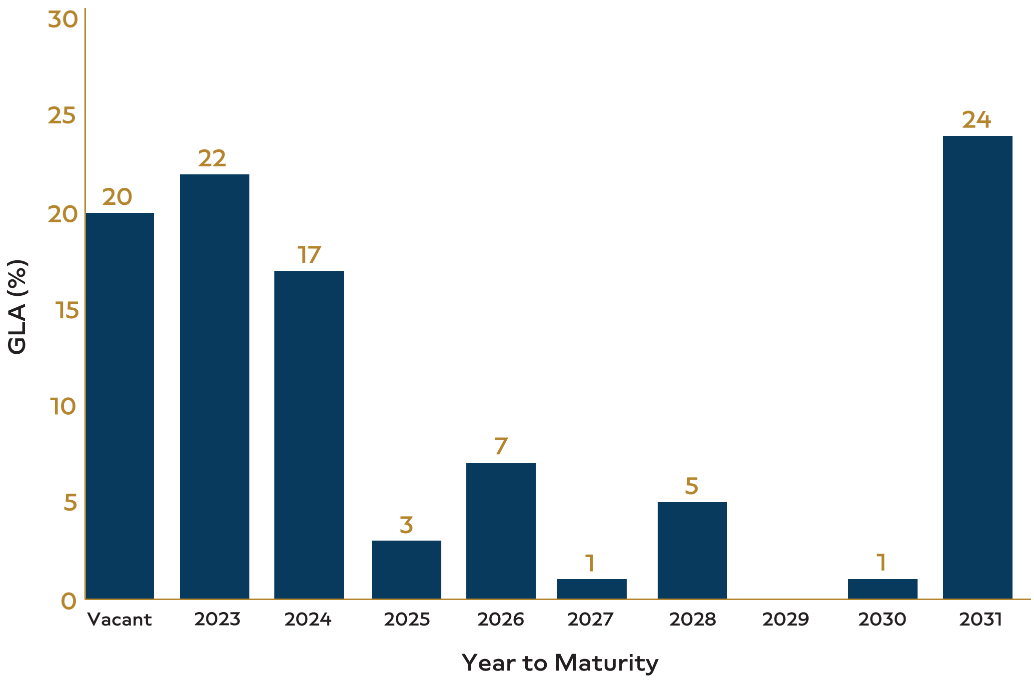
## KEY PERFORMANCE INDICATORS

### DEBTORS AGE ANALYSIS (GML)




Tenant arrears stood at KShs. 56.4 million at the end of 2022 (2021: KShs. 53.8 million). The slight increase in the arrears is attributable to some major tenants paying outside of the quarter billed i.e. rent for quarter 4 2022 collected in quarter 1 2023. The REIT Manager through the property manager continues to pursue the tenants to recover the outstanding amounts.

## LEASE EXPIRY PROFILE BY GROSS LETTABLE AREA (GLA)



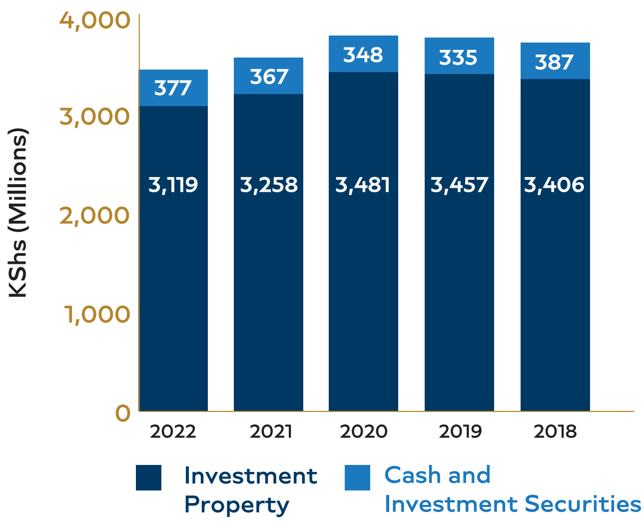

The lease expiry profile continues to be well spread with 24% of the GLA expiring from nine years after reporting date. The 24% relate to the anchor tenant at Greenspan Mall. The 22% expiry in 2023 mainly relate to the tenant at Starling Park Properties. The REIT Manager through the property manager is already marketing the space for a replacement tenant.

## VACANCIES

The total portfolio vacancy rate is at 20.1% while the portfolio target is at 5%.

| Property | GLA | Vacant GLA | Vacancy % |
|---|---|---|---|
| **Greenspan Mall** | 155,477 | 38,811 | 25.0% |
| **67 Gitanga Place** | 41,312 | - | - |
| **Bay Holdings** | 33,265 | - | - |
| **Highway House** | 7,638 | 7,638 | 100.0% |
| **TOTAL WEIGHTED AVERAGE** | **237,692** | **46,449** | **19.5%** |

## ASSETS UNDER MANAGEMENT (AUM)



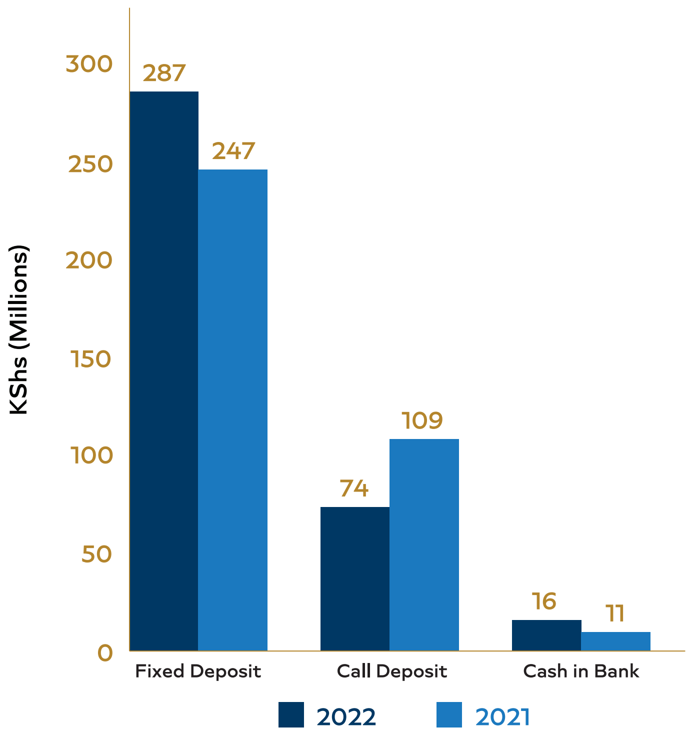

In 2022 the AUM decreased by 3.6% to KShs. 3.50 billion (2021: KShs. 3.63 billion) with investment property reducing by 4.3% due to the revaluation loss experienced by three properties out of the four. Starling Park Properties contributed 74% of the fair value loss resulting from reduced WAULT as well as rent reversion to market upon lease expiry.

## CASH & NEAR CASH ASSETS (KShs)

| Cash Instruments | 2022 | 2021 |
|---|---|---|
| **Cash and cash equivalents** | 89,908,591 | 120,294,160 |
| **Investment securities** | 287,049,120 | 246,686,432 |
| **TOTAL** | **376,957,711** | **366,980,592** |

To ensure optimisation of interest income returns, cash from property subsidiaries is swept into the REIT's investment account on a daily basis and is then invested in competitively priced cash investment instruments. In the above table, fixed deposits that have a maturity greater than 90 days at inception are classified as investment securities, otherwise they are included in cash and cash equivalents.

### Breakdown of Cash and Near Cash Assets




Fixed deposit instruments continue to dominate the portfolio with minimal investment in the call deposit. The REIT did not invest in Government securities during the year under review.

## NET ASSET VALUE

| Movement in Net Asset Value (KShs) | 2022 | 2021 |
|---|---|---|
| **Total asset value** | 3,615,564,220 | 3,712,525,774 |
| **Net asset value** | 3,424,354,606 | 3,543,204,347 |
| **Number of units in issue** | 180,972,300 | 180,972,300 |
| **NET ASSET VALUE PER UNIT** | **18.92** | **19.58** |

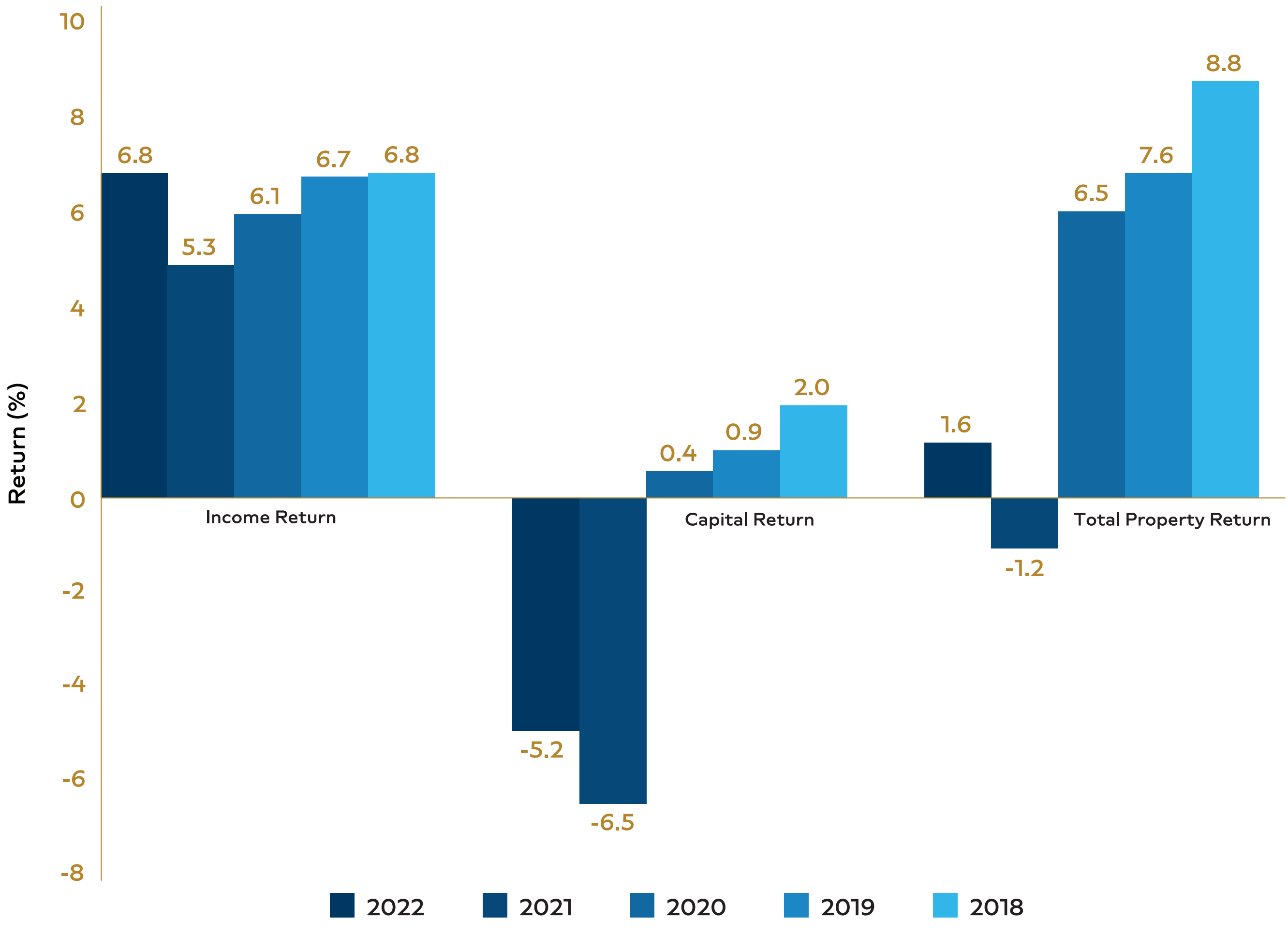
The decrease in total assets and net asset value is attributable to the revaluation loss of KShs. 225.9 million. This was offset by a net operating profit for the year ended December 2021 of KShs. 102.0 million (net of revaluation loss less the impact of the distribution paid during the year).

## NET ASSET VALUE PRIOR AND POST DISTRIBUTION OF EARNINGS

| As at 31 December (KShs) | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| **Net asset value prior to distribution** | 3,424,354,606 | 3,543,204,347 | 3,775,738,737 | 3,763,442,849 | 3,723,943,826 |
| **Net asset value post distribution** | 3,306,722,611 | 3,452,718,197 | 3,667,155,357 | 3,627,713,624 | 3,588,214,601 |
| **Net asset value per unit prior to distribution** | 18.92 | 19.58 | 20.86 | 20.80 | 20.58 |
| **Net asset value per unit post distribution** | 18.27 | 19.08 | 20.26 | 20.05 | 19.83 |
| **Yield based on the value of the unit as at 31 December** | **10.0%** | **8.0%** | **10.6%** | **8.0%** | **6.8%** |

## FUND RETURNS

### PROPERTY RETURNS



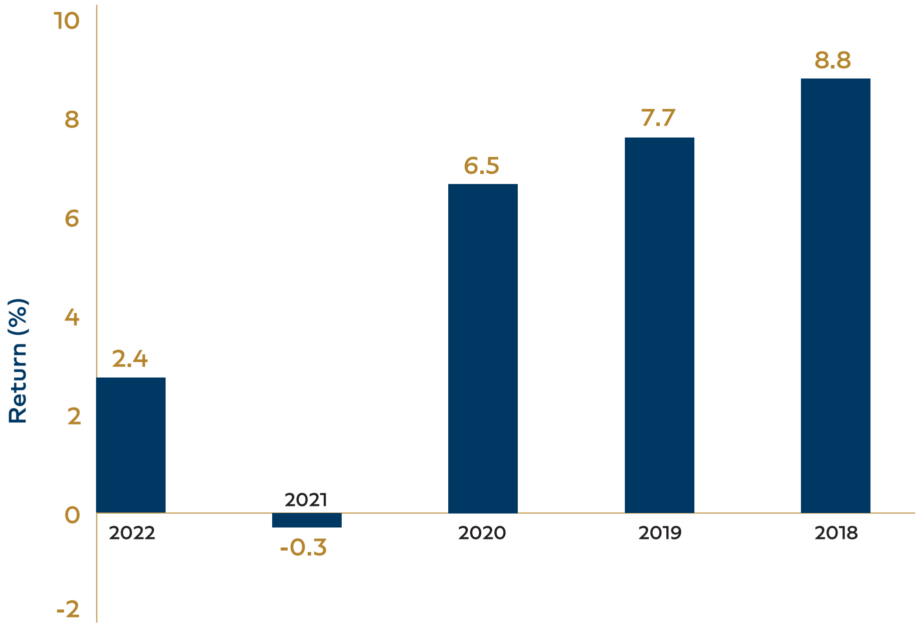

Property is valued once at the end of the financial year by an independent valuer.

## INVESTMENT INCOME RETURN (ANNUALISED) (%)

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| **Fixed and call deposit interest return** | 9.4 | 8.4 | 7.2 | 8.5 | 8.6 |
| **Treasury bills income return** | - | - | - | 9.3 | 11.1 |
| **WEIGHTED AVERAGE INTEREST RETURN** | **9.4** | **8.4** | **7.2** | **8.6** | **8.8** |

## TOTAL PORTFOLIO RETURN

The total portfolio return comprises the weighted average property and interest income return over the various reporting periods. The average split between property and cash instruments has been 89% and 11% in 2022, respectively (2021: 90% and 10%).




## DISTRIBUTIONS MADE FOR THE LESSER OF 5 YEARS OR SINCE THE ESTABLISHMENT OF THE SCHEME

| Sources of distribution (KShs) | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| **Net rental/dividend income from wholly owned property companies** | 223,019,921 | 183,808,700 | 211,258,848 | 230,724,761 | 201,460,125 |
| **Fund interest and other income** | 31,021,470 | 25,664,245 | 22,412,016 | 24,611,177 | 56,646,680 |
| | **254,041,391** | **209,472,945** | **233,670,864** | **255,335,938** | **258,106,805** |
| **Less:** | | | | | |
| **Fund operating expenses** | (112,092,872) | (107,499,674) | (99,249,948) | (111,301,743) | (130,221,511) |
| **Interest paid** | - | - | - | - | - |
| **TOTAL POTENTIAL DISTRIBUTABLE INCOME FROM CURRENT EARNINGS INCOME** | **141,948,519** | **101,973,271** | **134,420,916** | **144,034,195** | **127,885,294** |
| **Distribution from prior year retained earnings** | - | - | - | - | 7,843,931 |
| **DISTRIBUTION** | **117,631,995** | **90,486,150** | **108,583,380** | **135,729,225** | **135,729,225** |
| **DISTRIBUTION AS A % AND IN COMPLIANCE WITH REGULATION 72** | **83%** | **89%** | **81%** | **94%** | **106%** |

## MANAGEMENT EXPENSE RATIO

The management expense ratio ("MER") is the total fees and expenses incurred at a fund level expressed as a percentage of the average NAV for the period under review. The following ratio was achieved during the period under review and the comparative periods.

| Expense ratio | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| **MER (%)** | 3.3 | 3.0 | 2.6 | 3.0 | 3.5 |

## DETAILED ANALYSIS OF UNITHOLDINGS

ILAM Fahari I-REIT is trading as "FAHR" on the NSE under the Unrestricted Main Investment Market Segment of the NSE and may be listed on such other securities exchanges as the unitholders may resolve from time to time.

The units are registered for trading with ISIN Code KE5000003656, are freely transferable on the NSE, and bear no restriction on transfer.

### Fund Open or Closed Fund, Details of any Restrictions on Applications for Redemption

ILAM Fahari I-REIT is a closed-ended fund. Its units can only be traded at the NSE. The market price of the units is market driven and may not necessarily be equal to the NAV of the REIT. There is currently no active secondary market for a REIT in Kenya. However, the REIT Scheme may undertake secondary offers as and when the need arises.

### Free Float as Required by Regulation 27 and 29

As at 31 December 2022, none of the ILAM Fahari I-REIT issued units were subjected to any lock-in conditions. Previously, a three-year lock-in period was applicable to the International Finance Corporation ("IFC") held through Standard Chartered Nominees (33.9 million units) and the Liberty Group (26.085 million units). This lock-in period has since lapsed.

The free float as at 31 December 2022 thus amounted to 100% (31 December 2021: 100%).

### Statement of number and type of units outstanding as at the date of the report and last financial statements

The REIT has 180,972,300 units in issue as at 31 December 2022 and 31 December 2022. The total number of authorised units is 625,000,000. These have not changed since inception.

### Statement of Restriction on Transferability of Units

The units are freely transferable on the NSE, and the Trustee has not imposed any restriction on the transfer of units. As at 31 December 2022, no units were subjected to a lock-in period.

## DETAILS OF NUMBER AND PRICE AT WHICH UNITS WERE ISSUED OR REDEEMED AND TOTAL VALUE OF UNITS ISSUED OR REDEEMED DURING THE PERIOD COVERED BY THE REPORT

| Units in issue | 2022 | 2021 |
|---|---|---|
| **Units at the beginning** | 180,972,300 | 180,972,300 |
| **Units issued during period** | - | - |
| **UNITS IN ISSUE AT PERIOD END** | **180,972,300** | **180,972,300** |

The REIT has only one class of authorised and issued units. No units were redeemed or issued within the reporting period.

## BREAKDOWN OF REIT SECURITIES HOLDINGS BY CLASS

The distribution of the REIT's unitholders as at 31 December 2022 was as follows:

| Range | Units | Units (%) | Unit holders | Unit holders (%) |
|---|---|---|---|---|
| **Less than 100** | 406 | - | 27 | 0.5 |
| **100 - 1,000** | 1,946,754 | 1.1 | 2,511 | 43.3 |
| **1,001 - 10,000** | 10,264,740 | 5.7 | 2,682 | 46.2 |
| **10,001 - 100,000** | 13,889,600 | 7.7 | 493 | 8.5 |
| **10,0001 - less than 5% of no. of units in issue** | 78,786,500 | 43.5 | 82 | 1.4 |
| **Holdings above 5% of no. of units in issue** | 76,084,300 | 42.0 | 4 | 0.1 |
| **TOTAL** | **180,972,300** | **100.0** | **5799** | **100.0** |

## REIT SECURITIES HOLDINGS BY COUNTRY

The REIT security holdings by country as at 31 December 2022 were as follows:

| Country | Units | Units (%) |
|---|---|---|
| **Kenya** | 171,271,300 | 94.6 |
| **South Africa** | 7,993,700 | 4.4 |
| **Uganda** | 876,900 | 0.5 |
| **Others** | 830,400 | 0.5 |
| **TOTAL** | **180,972,300** | **100.0** |

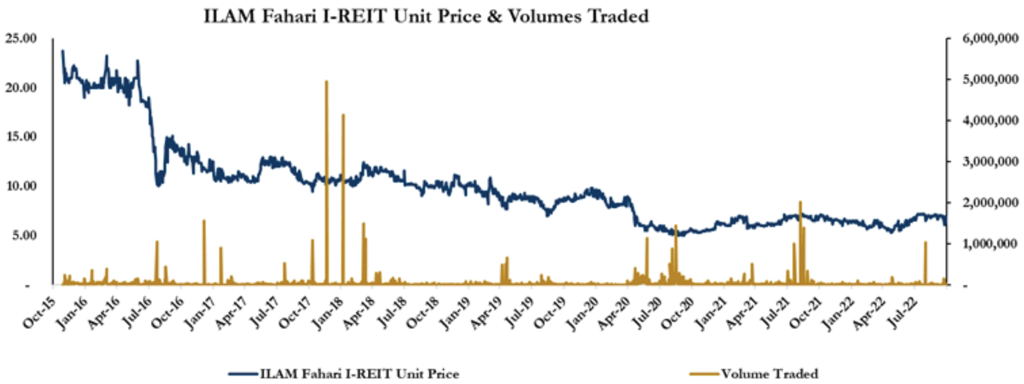
## REIT INVESTOR HOLDINGS

Top 10 ILAM Fahari I-REIT unitholders as at 31 December 2022

| Holder Names | Units | Holding (%) |
|---|---|---|
| **Standard Chartered Nominees Non Resd A/C Ke11752** | 33,900,000 | 18.73 |
| **STANLIB Kenya Limited** | 18,384,300 | 10.16 |
| **Standard Chartered Nominees Resd A/C Ke11436** | 11,900,000 | 6.58 |
| **Standard Chartered Nominees Resd A/C Ke11401** | 11,900,000 | 6.58 |
| **Liberty Group Ltd** | 7,700,700 | 4.26 |
| **Standard Chartered Nominees Resd A/C Ke11443** | 7,333,900 | 4.05 |
| **Stanbic Nominees Ltd A/C R1018467-C** | 6,805,158 | 3.76 |
| **One Globe Holdings Limited** | 5,868,600 | 3.24 |
| **ICEA LION Asset Management Limited A/C 2000** | 5,000,000 | 2.76 |
| **Bid Management Consultancy Limited** | 3,500,000 | 1.93 |
| **TOTAL** | **112,292,658** | **62.05** |

## CLOSING PRICE HISTORY

The REIT daily closing price from inception to 31 December 2022 was as follows:




The REIT's closing price at end of year is outlined below:

| Units in issue | 2022 | 2021 |
|---|---|---|
| **Closing price per unit (KShs)** | 6.52 | 5.26 |

## CONNECTED PARTY TRANSACTIONS

The following are connected parties to the REIT, who had dealings with the REIT and the relevant transactions:

### (a) Identification of connected parties who had dealings with the REIT

| Connected party | Relationship | Transaction |
|---|---|---|
| **ICEA LION Asset Management Limited** | REIT Manager | Asset management fees |
| **The Co-operative Bank of Kenya Limited** | Trustee | Trustee and custodial fees |
| **Knight Frank Kenya Limited** | Property Manager | Property management fees |
| **Jones Lang LaSalle Kenya Ltd** | Valuer | Valuation fees |
| **Viva Africa Consulting** | Tax advisor | Tax consultancy services fees |

### (b) Connected party transactions – fees paid

| Transaction (KShs) | 2022 | 2021 |
|---|---|---|
| **Asset management fees – ICEA LION Asset Management Limited** | 70,000,000 | 70,000,000 |
| **Trustee fees – Co-op Bank** | 21,547,604 | 22,908,441 |
| **Custodial fees – Co-op Bank** | 1,723,808 | 1,832,675 |
| **Other administrative fees – Co-op Bank** | 970,098 | 1,101,047 |
| **Valuation fees – Jones Lang LaSalle Kenya Ltd** | 1,933,334 | 2,002,934 |
| **Property management fees – Knight Frank Kenya Limited** | 13,597,128 | 14,296,375 |
| **Tax consultancy services fee paid to Viva Africa Consulting** | 686,215 | 175,000 |
| **Property management fees – CBRE Excellerate** | - | 3,585,653 |
| **TOTAL** | **110,458,187** | **115,902,125** |

### (c) Connected party balances

The REIT had the following cash balances held with Co-op Bank:

| Bank account name (KShs) | 2022 | 2021 |
|---|---:|---:|
| Investment account – fixed deposits | - | 130,000,000 |
| Investment account – call deposits | - | 63,000,000 |
| REIT Investment account | 7,309,443 | 2,037,913 |
| Rent collection account – Greenspan Mall | 2,709,565 | 2,077,534 |
| Service charge account – Greenspan Mall | 407,957 | 1,232,604 |
| Service charge account – Starling Park Properties | 4,954,187 | 4,632,175 |
| Rent collection account – Bay Holdings | 793,513 | 1,088,906 |
| Rent collection account – Signature Assets | 23,747 | 27,300 |
| **TOTAL** | **16,198,412** | **204,096,432** |

### (d) Units held by connected parties to the REIT

| Promoter Holdings as at 31 December 2022 | Units | Holding (%) |
|---|---:|---:|
| ICEA LION Asset Management Limited | 5,000,000 | 2.76 |

## INVESTMENTS IN ANY WHOLLY OWNED AND CONTROLLED COMPANY CARRYING OUT REAL ESTATE RELATED ACTIVITIES

- The asset known as Greenspan Mall is held within the wholly-owned subsidiary Greenspan Mall Limited.
- The asset known as Highway House is held within the wholly-owned subsidiary Signature Assets Limited.
- The asset known as Bay Holdings is held within the wholly-owned subsidiary Bay Holdings Limited.
- The asset known as 67 Gitanga Place is held through the partnership - Starling Park Properties LLP. Starling Park Properties is 99% owned by the REIT and 1% by Greenspan Mall Limited which holds the 1% partnership interest in trust on behalf of the REIT.

## FEES PAID BY THE REIT AS PER REGULATIONS

| Transaction (KShs) | 2022 | 2021 |
|---|---:|---:|
| Asset management fees – ICEA LION Asset Management Limited | 70,000,000 | 70,000,000 |
| Trustee fees – Co-op Bank | 21,547,604 | 22,908,441 |
| Custodial fees – Co-op Bank | 1,723,808 | 1,832,675 |
| Other administrative fees – Co-op Bank | 970,098 | 1,101,047 |
| Valuation fees – Jones Lang LaSalle Kenya Ltd | 1,933,334 | 2,002,934 |
| Property management fees – Knight Frank Kenya Limited | 13,597,128 | 14,296,375 |
| Property management fees – CBRE Excellerate | - | 3,585,653 |
| **TOTAL** | **109,771,972** | **115,727,125** |

# PROPERTIES DETAILED REPORT

## GREENSPAN MALL

Greenspan Mall is a modern decentralized mixed-use development, situated on 3.8 hectares (9.5 acres), within the middle-income area of Donholm approximately 12 km to the east of the Nairobi CBD. The development comprises a retail centre with a GLA of approximately 16,105 m² (155,477 sq.ft.) with 1,000 parking spaces.

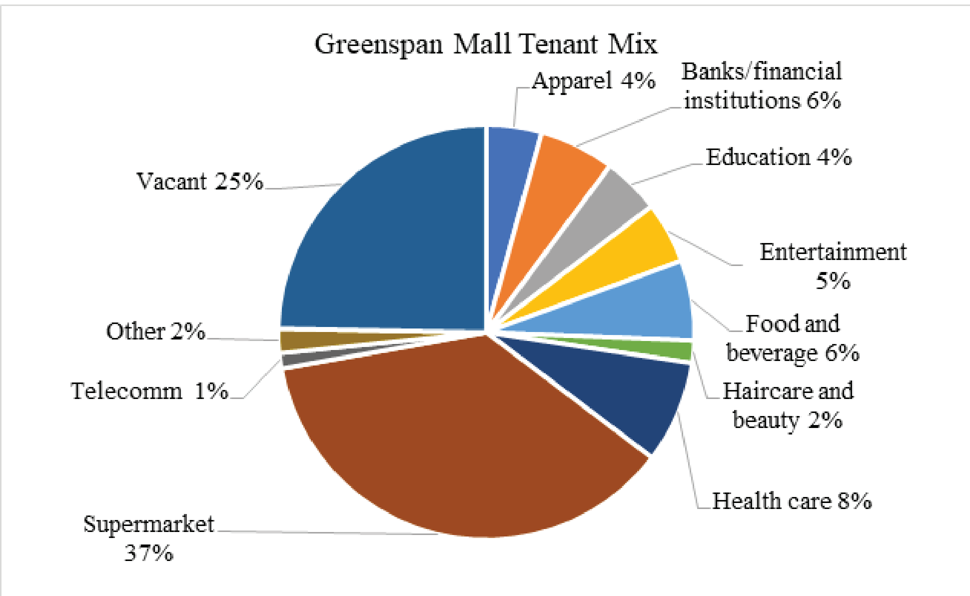
The acquisition price (on 11 December 2015) was KShs. 2,093,576,710.

The property is registered as L.R. No. Nairobi/Block 82/8759 (F1, F2, F3, F4 & F5). It is held as leasehold interest for a term of 99 years less 7 days, with lease commencement date 1 September 2007 at peppercorn rent, if demanded. As at 31 December 2021, the property has an unexpired leasehold term of 84 years.

The mall has a parking ratio in excess of 4 bays per 100 m² of GLA, has a middle income catchment market within the larger Greenspan estate and offers opportunity to develop an additional 1 acre of vacant land forming part of the acquisition.

The property represents a location with potential to improve the returns through the development of excess land and reconfiguration of the mall/ tenant mix. Anchored by Naivas, it offers fast food restaurants and bars, as well as various service-related tenants such as banks, wellness centres, entertainment centres, cinema, salons and small non-branded fashion and apparel component. The anchor tenant occupies 37% of the GLA while the balance is occupied by services, food, clothing, healthcare, entertainment and apparel.

Greenspan Mall has a well smoothed lease expiry profile making it possible to manage the tenant mix to optimize the rental income stream.

## SIGNATURE ASSETS LIMITED

The property known as Highway House is a three-storey industrial building located in a growing office node on Pokomo Road, off Mombasa Road.

Highway House is located on L.R. No. 37/157 (Original Number L.R. No. 37/54/18) measuring 0.1089 acres with a land-lease term of 99 years commencing 1 July 1956, and registered as Title Number I.R 22130. As at 31 December 2022, the property has an unexpired leasehold term of 33 years.

The property was transferred into the portfolio at a net acquisition price of KShs. 108,717,670 on 30 June 2016.

The GLA is approximately 710 m² (7,638 sq.ft.), with ample covered parking bays. The property is currently vacant after the previous tenant's lease expired. Management is working towards selling the property as part of the on-going strategic initiatives.

## BAY HOLDINGS LIMITED

The property known as Bay Holdings is located at the junction of Enterprise Road and Bamburi Road within the main Industrial Area of Nairobi.

The property is registered as L.R. No. 209/4125 measuring 0.665 acres for a term of 99 years from 1 January 1949 and registered as Title Number I.R 93022. The property has an unexpired leasehold term of 26 years as at 31 December 2022.

The acquisition of Bay Holdings Limited was concluded on 30 June 2016 for an amount of KShs. 216,122,547. The GLA is 2,566 m2 (33,265 sq.ft.) with a covered area for parking.

The building is currently fully let to three tenants; Imperial Bank, Packard Limited and Architecture Supply Limited.

## STARLING PARK PROPERTIES LLP

The property known as 67 Gitanga Place is located on Gitanga Road off James Gichuru Road in Lavington, Nairobi.

The property is registered as L.R. No. 3734/917 measuring 0.2830 hectares for a leasehold term of 99 years from 1 April 2016. The property has an unexpired leasehold term of 92 years, 4 months as at 31 December 2022.

The acquisition of Starling Park Properties LLP was concluded on 29 May 2018 for an amount of KShs. 850,037,500 (including the value of equipment and deposits valued at KShs. 37,500).

The GLA is 3,838 m2 (41,312 sq.ft.). The property has basement parking. The building is single tenanted.

## SUMMARY OF RECENT VALUATIONS

The investment properties were revalued by Jones Lang LaSalle Kenya Ltd as at 31 December 2022 and 31 December 2021. The market values at revaluation are summarized below:

| Transaction | 2022 | 2021 |
|---|---|---|
| **Greenspan Mall** | 2,202,600,000 | 2,202,200,000 |
| **Starling Park Properties LLP** | 715,600,000 | 841,400,000 |
| **Bay Holdings** | 170,400,000 | 189,700,000 |
| **Signature Assets** | 30,000,000 | 24,700,000 |
| **TOTAL** | **3,118,600,000** | **3,258,000,000** |

Copies of the valuation reports are available for inspection free of charge at the offices of the REIT Manager and may be inspected between the hours of 09h30 – 15h00, Monday to Friday (excluding public holidays).

# PROPERTY MARKET UPDATE

## RETAIL SECTOR

During the year under review, there were several expansions and closures by anchor retailers. Carrefour opened 3 branches - Kilimani, Valley Arcade, and Nairobi CBD – increasing its total branches to 19. Naivas opened 7 stores – Elgon View mall in Eldoret, Naivas Nairobi West, Naivas Express Uthiru, Greenwood mall in Meru, and Naivas Food market Ojijo at Broadwalk mall, Westlands – reaching a total store count of 91 and strengthening its position as Kenya's retail leader. Chandarana Foodplus, a family-owned retail chain, opened their latest of 26 stores at Azalea Square along General Mathenge in Westlands.

Despite the expansionary trend showed by most anchor tenants as they compete for prime spaces, the general performance and supply of malls in Kenya has been on the decline with the focus shifting to convenience centres that are closer to residential neighbourhoods. Further, even as the much-anticipated normalcy slowly returned since 2021, the recovery rate has been slow. The negative impacts of Covid-19, economic slow—down, geopolitics and election jitters experienced in 2022 continued to plague the retail sector over the short to medium term. Tenants continued to renegotiate rents, and we witnessed a drop in asking rents, especially in centres with high vacancies. Market rents remained flat or reduced, and vacancies on upper floors took longer to fill during the year under review.

With over 500,000 sq.ft. of new supply planned to hit the market in 2023, the retail Centre owners are expected to devise various strategies to attract and optimally pace tenants within the malls and wade off stiff competition from the traditional dukas. A recent report by Boston Consulting Group (BCG) concluded that 77% of retail sales are made in traditional retailers (commonly known as duka).

## OFFICE

The main demand drivers for office space in Nairobi are Small and Medium-Sized Enterprises (SMEs), which are the key drivers of 'Kenya's economy. In 2022, grade A offices experienced increased demand from ICT-oriented enterprises as well as non-governmental organizations (NGOs) and multinational corporations (MNCs). This is in tandem with Kenya Vision 2030 which aims to leverage on technological developments.

According to Estate Intel in 2022, a real estate data platform, the office sector developments in the pipeline are estimated to be 2,452,385 sq.ft. which is 20% of the current supply of office space. Accordingly, the sector has seen corresponding supply growth over the past five years. This was exacerbated by the limited expansion of key economic sectors and the general slowdown of the economy vis-à-vis the Covid-19 pandemic and election jitters experienced in 2022.

Asking rentals have been slowly eroding in the last three to four years, especially in the most oversupplied nodes. The availability of higher quality more recently completed stock has also negatively impacted rentals in older buildings throughout the city. Going forward, occupiers are expected to keep good leverage towards landlords in the short term. Despite the gradual increase in product quality, asking rentals are unlikely to significantly increase in the short term. Knight Frank, in a report published in 2022 estimates an average occupancy rate of 74%. Some of the major completions in 2022 included; Trade and Development Bank Tower, GTC Towers and the Riverside Cube.

## INDUSTRIAL

According to Nairobi Pipeline report 2022, the outlook for the industrial sector remains very positive especially due to developers' interest matched with occupiers' demand in the Small and Medium Enterprises, Agricultural sector and FMCG.

Demand for quality industrial facilities across Africa remains strong, with investors attracted to the sector's strong income profile and positive market fundamentals such as rising urbanization levels, which is driving demand for urban logistics facilities. In 2022, the prime industrial rentals stabilized at about KShs 70 per sq.ft., a slight increment from the prior year mainly attributable to the easing of Covid-19 restrictions and recovery of the sector.

Investor focus continues to be on strategically located assets, more so in locations that have favourable development policies such as special economic zone status. The push towards cleaner energy and the need to manage costs has seen solar power gaining popularity and traction. This push for renewable energy has also received a boost from the government of Kenya. Solar One Limited is a proposed electricity generating company that is set to be complete by end of 2023, located in Kibos in Kisumu. The KES 6.4 billion project is expected to generate 40 MW upon completion. Other investors are also exploring development of large scale solar plants in other parts of the country.

## REGULATORY LIMITS

| Regulation | Regulatory Limit | Actual as at 31 December 2022 | Complied (✓) / Not Complied (X)/ N/A |
|---|---|---|---|
| **Minimum number of REIT securities holders** | 7 | 5,799 | ✓ |
| **Minimum Free Float** | 25% | 100% | ✓ |
| **Minimum Promoter investment and retention*** | 25% of NAV | 2.76% | N/A |
| **Eligible Investments** | 75% real estate | 89% real estate | ✓ |
| **Minimum income generation** | 70% of rental income | 92% | ✓ |
| **Maximum gearing** | 35% of total asset value | 0% | ✓ |
| **Minimum distributions** | 80% | 83%** | ✓ |

***Regulation 74** (minimum retained investments by the Promoter and lock-in period) does not apply to ICEA LION Asset Management Limited in its capacity as the Promoter as it neither sold nor transferred real estate to the REIT Scheme since it was appointed as the REIT Manager.

** This is in respect of the proposed distribution to be paid out by 30 April 2023.

## PROSPECT STATEMENT AND PIPELINE

A property development project utilising part of the vacant land at Greenspan Mall is currently being evaluated. If considered viable, the project will be implemented.

## UPDATE ON THE STRATEGIC REVIEW AND THE ANNUAL GENERAL MEETING

On 24th March 2022, the Board of the REIT Manager together with the REIT Trustee issued a cautionary statement regarding a strategic review undertaken which, if approved and implemented, might involve an operational restructuring of the REIT. The process is subject to, inter alia, regulatory and unitholders' approvals. The Capital Markets Authority (CMA) has been engaged on the process. A detailed announcement including all the relevant information on the proposed process will be available on the REIT's website, www.ilamfahaiireit.com at an appropriate time.

The announcement will be issued once approval is received from the CMA. Due to the aforementioned, the AGM for the financial year ended December 2021 was not held in April 2022, and is expected to take place in April 2023 together with the AGM for the financial year ended December 2022. The AGM notice will be published through the REIT's website and in the newspapers on 29th March 2023. Unitholders will also be advised via SMS and/or email.

## ASSET HOLDINGS VERSUS PRESCRIBED LIMITS

The table below highlights the asset holdings versus the subscribed limits in the investment mandate.

| I-REIT Eligible Investments (Assets) Regulation 65 | Regulation and maximum limit % | Regulation and minimum limit % |
|---|---|---|
| If the REIT is an Islamic REIT percentage of Shariah compliant total. If not 100% then for each category set out below specify % that is Shariah compliant | N/A | N/A |
| **All direct eligible real estate:** | | |
| a) Freehold | None | None |
| b) Leasehold | None | None |
| **All indirect eligible real estate:** | | |
| a) Freehold held through investee companies or investee trusts | N/A | N/A |
| b) Leasehold held through investee companies or investee trusts | None | None |
| Income producing real estate Regulation 65 (6) Minimum of 75% of TAV within 2 years of authorisation | N/A | 75% |
| Land and cost of construction Regulation 70 Maximum 15% TAV | None | None |
| Cash, Deposits, bonds and money market instruments Regulation 65 (11) Maximum 5% to single issuer, institution, or members of group | 5% | 0% |
| Wholly owned and controlled company which conducts real estate activities Regulation 65 (14) Maximum 10% TAV with REIT securities holder consent | N/A | N/A |
| Income producing assets including listed shares in Kenyan property companies and units in Kenyan I-REITs. Regulation 68 (2) Maximum 10% of value of investment and TAV at time of acquisition | 10% | 0% |
| For an IREIT that has converted from a D-REIT Mortgages or other secured loans etc.; authorised under Regulation 12 provided to purchasers of real estate developed or constructed Regulation 12 | N/A | N/A |
| Other assets (eligible) include description | None | None |
| Other assets (not eligible) include description | None | None |

| Limit in scheme document % | % as at the reporting date | Highest % level during reporting period | Date of most recent valuation/s and ref. to report detailing valuation |
|---|---|---|---|
| N/A | N/A | N/A | N/A |
| | | | |
| None | None | None | None |
| None | None | None | None |
| | | | |
| N/A | N/A | N/A | N/A |
| None | Refer to financials | Refer to financials | 31.12.2022 |
| None | 89% | 91% | 31.12.2022 |
| None | None | None | None |
| 5% | 0% | 0% | 31.12.2022 |
| N/A | N/A | N/A | N/A |
| 10% | 0% | 0% | None |
| N/A | N/A | N/A | N/A |
| None | None | None | None |
| None | None | None | None |

## MEETINGS OF REIT SECURITIES HOLDERS

The Capital Market Authority issued a no objection for the postponement of the Annual General Meeting of unit holders for the financial year ended December 2022 following the REIT Manager's request. The meeting is expected to be held in April 2023 and the notice of the AGM will be communicated to the unitholders via newspaper publication on 29th March 2023. Unitholders will also be advised via SMS and/or email.

## APPROVAL OF THE REIT MANAGER'S REPORT

The REIT Manager's report was approved on behalf of the REIT Manager by:

**ANDREW NDEGWA**
**Chairman, ICEA LION Asset Management Limited**

**EINSTEIN KIHANDA**
**Chief Executive Officer, ICEA LION Asset Management Limited**

**Date: 28 March 2023**

ILAM
FAHARI I-REIT

# REPORT OF THE TRUSTEE

## REPORT OF THE TRUSTEE

The Trustee's report is prepared in accordance with Regulation 101(3) and the Fifth Schedule of the REITs Regulations.

### 1. Confirmation of all matters relating to the title particulars of real estate properties and other assets of the fund

We confirm the below titles particulars for the real estate properties:

- Nairobi Block 82/8759 (Nos F1,F2,F3,F4 & F5) – Property known as Greenspan Mall under the SPV Greenspan Mall Limited;
- L.R. No 37/157 registered as Title No.I.R. 22130 – Property known as Highway House under the SPV Signature Assets Limited;
- L.R. No. 209/4125 registered as Title No.I.R. 93022 – Property under the SPV Bay Holdings Limited; and
- L.R No. 3734/1426 (Original Number 3734/917) – Property known as 67 Gitanga Place under the SPV Starling Park Properties LLP.

We confirm that the other assets of the fund are as detailed in the accounts. Details of other matters:

| Requirement under the Fifth Schedule | Trustee's report |
|---|---|
| (a) Any appointment of a secondary disposition Trustee together with details of purpose of the appointment and of any documents executed by the secondary disposition trustee | There was no appointment to this effect |
| (b) Any matter arising during the period which has been, or should have been, notified to the Authority pursuant to the Regulations | The REIT Manager and the REIT Trustee, with the Authority's consent, issued a cautionary statement to unit holders on 24th March 2022. The REIT Manager, with the Trustee's consent, is undertaking a strategic review of the I-REIT, which may involve a restructuring of the I-REIT. The matter was communicated to the Authority |
| (c) Any failures by the Trustee to comply with the provisions of the scheme documents, the Act or the Regulations and action taken to remedy the failure | There were no failures to this effect |
| (d) Any action taken by the Trustee during the period to protect assets of the trust or the interests of REIT securities holders | There were no matters that necessitated such action to be taken by the Trustee |
| (e) Meetings of REIT securities holders convened by the trustee, resolutions put and the outcome of voting | The Authority issued a no objection for the postponement of the Annual General Meeting of unit holders following the REIT Manager's request. The meeting is expected to be held in April 2023 and the postponement was communicated to the unit holders. |

### 2. A summary of the meetings of REIT securities holders called or held during the period, a summary of the purpose of the meeting, resolutions put to the REIT securities holders and of attendees and votes cast

No meeting of unit holders was held during the period.

### 3. Trustee's opinion on whether the REIT Manager has managed the scheme in accordance with the provisions of the scheme documents, the Act and REITs Regulations

In the Trustee's opinion the REIT Manager - ICEA LION Asset Management Ltd - has managed the scheme in accordance with the provisions of the scheme documents, the Act and the REITs Regulations.

### 4. Comments by the Trustee on the REIT Manager's report, performance of the REIT Manager or of any other person or other material matter

Due to the economic challenges occasioned by the disruption in global supply chains, rising global food & energy prices, the business was affected to some extent. As a result, the REIT's overall performance continues to feel the impact as highlighted in the audited financial report.

Signed by

**HENRY KARANJA**
**The Compliance Officer**
**The REIT Trustee**
**The Co-operative Bank of Kenya Limited**
**Date: 28 March 2023**

ILAM
FAHARI I-REIT

# COMPLIANCE REPORT

## COMPLIANCE REPORT

In accordance with Regulation 101 and the Fifth Schedule of the Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013, (the Regulations) the Compliance Officer notes the following for the period ended 31st December 2022:

1. In line with the regulatory requirements, the audited annual financial statements for the REIT for the year ended 31st December 2021, were submitted to the relevant authorities and published within the prescribed timelines.

2. The REIT is compliant with Regulation 65(6) of the regulations which requires that investment property should form at least 75% of the total net asset value of the Fund.

3. The REIT Manager is proactively reviewing and monitoring its compliance framework, systems, policies and procedures as well as monitor its risks, implement measures to mitigate their effects and cushion the REIT from adverse effects.

4. Submission of the half year unaudited financial statements were submitted to the relevant authorities within the prescribed timelines.

5. The REIT Manager sought approval for the postponement of the AGM to accord more time to effect the proposed restructuring process that may lead to material change in the listing status.

6. The dividend payment was done within the prescribed timelines.

7. In addition to the foregoing and in line with the requirements under part J of the Fifth Schedule of the Regulations, the REIT Manager states as follows for the year under review:

   a. Matters arising during the period which have been, or should have been, notified to the Capital Markets Authority pursuant to the REITs Regulations: **NONE**.

   b. Any failures by the REIT Manager, Trustee or any other party to comply with the provisions of the of the scheme documents, the Act or the Regulations and action taken to remedy the failure: **Other than the matter as disclosed in part 5 above, the REIT Manager complied with all other provisions.**

   c. Any action taken by the REIT Manager or which the Trustee was requested to take during the period to protect assets of the trust or the interests of REIT securities holders: **NONE**.

   d. An update of any matters reported in prior periods and action taken to rectify:

      i. **Nairobi ELC No. 102 of 2019 (Douglas Mwangi Kirungu vs Greenspan Mall Limited and STANLIB Fahari I-REIT:** The matter was mentioned on 27th October 2022 where the Plaintiff's advocate confirmed to the court that the plaintiff had withdrew the suit and the matter should thus be marked as settled. The REIT's advocate drew the court's attention to the fact that they had attended 12 mentions over the same issue and that it would be fair and just if the Defendants are granted the cost of the suit. In light of the above, the court marked the matter as settled save for costs and directed that both parties engage on the same. The matter would be mentioned on 22nd February 2023 to update the court on the matter of costs.

      ii. **Commercial and Tax Division Insolvency Cause No. E018 of 2020 TUSKER MATTRESSES LIMITED and THE INSOLVENCY ACT (ACT NO. 18 OF 2015):** The Trustee is pursuing unpaid rent from Tuskys via Insolvency Cause No. E018 of 2020. Tuskys objected to the request by the creditors to liquidate the company and seeking injunctive orders to stop any creditor from instituting proceedings against it as they sought to restructure their business. The matter of insolvency has been in abeyance as Tuskys objects to claims from other interested creditors seeking to dispose of assets in their possession before the main Insolvency suit can be heard. Following various injunctions, mentions and objection hearing, the insolvency petition has been scheduled for hearing on 22nd and 23rd March 2023.

      iii. **Civil Suit No E.81 of 2022:** The Trustee instructed the REIT Manager to issue a distress for rent against Mobil Energy Limited, a tenant in Greenspan Mall, for unpaid rent. The REIT Manager appointed an auctioneer to recover the rent by way of auctioning the tenant's assets in the leased premises. On 30th July 2021 the tenant filed a case seeking a stay of the auction; the REIT Manager through the firm of Mboya, Wangong'u & Waiyaki filed a preliminary objection on 27th August 2021 challenging the Tribunal's jurisdiction as there was an existing written lease running for a period exceeding 5 years with no termination clause. The decision of the tribunal on the preliminary objection was delivered on 15th December 2021 upholding the objection. The matter moved to the Chief Magistrates court and continues as Civil Suit No. E81 of 2022.

Docs Beauty Parlour Kenya Limited lodged a suit against Greenspan Mall Limited claiming to be the owners of the attached goods that were situate in the premises of Mobil Energy, the subject tenant and it had used the same to secure a loan from Bank of Africa. Additionally, Bank of Africa claimed priority of the attached goods as a Debenture Holder. GML through its advocate filed its response to the suit and on 08.07.2022 the Plaintiff's applications were dismissed with costs. As a consequence of this dismissal, the Plaintiff's as well as the 2nd Interested Party's Advocates sought and were granted leave to appeal.

The auctioneer (Garam Auctioneers) proceeded with the auction of the assets that had been distressed and the landlord has since repossessed the premises.

iv. **In the matter of an arbitration pursuant to the Water Supply Agreement, Greenspan Investment Limited vs Greenspan Mall Limited:** The plaintiff Greenspan Investments Limited wrote to the appointed arbitrator, Wilfred Nderitu, advising him that the parties had failed to settle the matter outside arbitration and requested the arbitrator to proceed with the matter to its logical conclusion. Greenspan Mall Limited appointed Coulson Harney LLP to represent it in this arbitration. The lawyers filed GML's response by 30th October 2022. They are now pursuing the arbitrator to allocate a meeting date for the purpose of setting the calendar for hearing.

v. **Dispute arising out of the Share Sale and Purchase Agreement for 100% of the issued share capital in Greenspan Mall Limited:** The REIT appointed the firm of Coulson Harney LLP (Bowmans) to represent it in the arbitration matter where thirteen former shareholders of Greenspan Mall Limited are claiming compensation from the REIT Trustee for loss and damages suffered as a result of failure by the trustee to release the balance of the purchase price on completion date.

GML, through Bowmans, has filed their statement of response, witness statements and list of issues. The hearing took place on 1st February 2023. The matter was marked for mention on 16th March 2023 to confirm compliance.

Signed by:

**OLGA OMALLA**
**Compliance Officer: ICEA LION Asset Management Limited**

**Date: 28 March 2023**

ILAM
FAHARI I-REIT

# STATEMENT OF THE REIT MANAGER'S RESPONSIBILITIES

## STATEMENT OF THE REIT MANAGER'S RESPONSIBILITIES

The REIT Manager is responsible for the preparation and presentation of the consolidated financial statements of the ILAM Fahari I-REIT set out on pages 61 to 94 which comprise the consolidated statement of financial position as at 31 December 2022, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

The REIT Manager's responsibilities include: determining that the basis of accounting described in Note 2 to these financial statements is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of consolidated financial statements in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and the requirements of the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013 (the Regulations) and such internal control as the REIT Manager determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The REIT Manager is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the REIT as at the end of the financial period and of the operating results for that period. It also requires the REIT Manager to ensure the REIT keeps proper accounting records which disclose with reasonable accuracy the financial position of the REIT and its profit or loss.

The REIT Manager accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with IFRS Standards and the requirements of the Regulations. The REIT Manager is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the REIT and of its operating results.

The REIT Manager further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The REIT Manager has assessed the REIT's ability to continue as a going concern and has no reason to believe that the REIT will not be a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the REIT Manager on 28 March 2023.

**ANDREW NDEGWA**
**Chairman, ICEA LION Asset Management Limited**

**EINSTEIN KIHANDA**
**Chief Executive Officer, ICEA LION Asset Management Limited**

**Date: 28 March 2023**

ILAM
FAHARI I-REIT

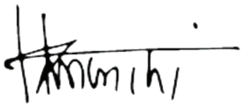
# CERTIFICATION OF THE FINANCIAL STATEMENTS BY THE TRUSTEE

## CERTIFICATION OF THE FINANCIAL STATEMENTS BY THE TRUSTEE

The Trustee has considered and reviewed the consolidated financial statements of the ILAM Fahari I-REIT for the year ended 31 December 2022, and certifies, according to the requirements of the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013, that these financial statements give a true and fair view of the consolidated statement of the financial position of the REIT as at 31 December 2022 and of the consolidated profit or loss for the year then ended.

**Certified on behalf of The Co-operative Bank of Kenya Limited on 28 March 2023 by:**

Signed by



**HENRY KARANJA**
**Trustee Compliance Officer**
**The Co-operative Bank of Kenya Limited**

ILAM

FAHARI I-REIT

# INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE AND UNITHOLDERS OF ILAM FAHARI I-REIT

# INDEPENDENT AUDITOR'S REPORT
# TO THE TRUSTEE AND UNITHOLDERS OF ILAM FAHARI I-REIT

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Opinion

We have audited the consolidated financial statements of ILAM Fahari I-REIT ("the REIT") as set out on pages 61 to 94 which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the ILAM Fahari I-REIT as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and in the manner required by the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013 ("the Regulations").

### 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 consolidated financial statements section of our report. We are independent of the REIT in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

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

KPMG

# INDEPENDENT AUDITOR'S REPORT
# TO THE TRUSTEE AND UNITHOLDERS OF ILAM FAHARI I-REIT (Continued)

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Key audit matters (Continued)

| **Key audit matters** | |
|---|---|
| **The key audit matter** | **How the matter was addressed in our audits** |
| Valuation of investment property<br>(See Note 3(c)(i) and Note 11 to the financial statements) | |
| Valuation of investment properties is considered a key audit matter because:<br><br>The REIT owns four investment properties which represent 86% of its total assets on the consolidated statement of financial position as at 31 December 2022. These investment properties are stated at their fair values based on independent external valuations.<br><br>The valuation process involves significant judgment in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. The key assumptions and judgments used in the valuation of the investment property include the following:<br><br>a. Determination of the appropriate discount rate to be used to discount future cash flows (rental income and related costs).<br><br>b. Forecast of future income from the properties based on existing rental contract and expected annual increments.<br><br>c. Estimate of terminal yield rate applied to expected cash flows in the long run. | Our audit procedures in this area included:<br><br>a. Obtain an understanding of the valuation process which included evaluation of experts engaged by the REIT to perform independent valuations as well as testing the design and operating effectiveness of controls over management review of assumptions used in valuation of investment property.<br><br>b. Evaluating the appropriateness of the valuation methodologies used (market approach and cost approach). This included assessing the integrity of inputs of the projected cash flows used in the valuation to supporting leases and other documents. We reviewed a sensitivity analysis performed by the valuation expert on the assumptions and inputs such as the discount rate, exit yield rate and revenue growth rate and used the analysis to determine the inputs whose change had a significant impact on the model. We also challenged the discount and terminal yield rates used in the valuation by comparing them against historical rates and available industry data, taking into consideration comparability and market factors.<br><br>c. Evaluating the adequacy of financial statements disclosures, including disclosures of key judgements and assumptions used in determining fair values in accordance with the requirements of IFRS 13 *Fair Value Measurements.* |

### Other information

The REIT Manager is responsible for the other information. The other information comprises the information in the ILAM Fahari I-REIT Annual Report and Financial Statements for the year ended 31 December 2022 but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, other than that prescribed by the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013.

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

# INDEPENDENT AUDITOR'S REPORT
# TO THE TRUSTEE AND UNITHOLDERS OF ILAM FAHARI I-REIT (Continued)

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### Other information (Continued)

If, based on the work we have performed, 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.

### REIT Manager's responsibility for the consolidated financial statements

The REIT Manager is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS Standards and in the manner required by the Regulations, and for such internal control as the REIT Manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, the REIT Manager is responsible for assessing the REIT'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 REIT Manager either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 REIT's internal control.

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

- Conclude on the appropriateness of the REIT 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 REIT'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 consolidated 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 REIT to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities within the Group (REIT) to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG

# INDEPENDENT AUDITOR'S REPORT
# TO THE TRUSTEE AND UNITHOLDERS OF ILAM FAHARI I-REIT (Continued)

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

We communicate with the REIT Manager 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 the REIT Manager 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 the REIT Manager, we determined those matters that were of most significance in the audit of the consolidated 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.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013 we report to you solely based on our audit of the consolidated financial statements, that the compliance reports are in accordance with Regulations.

*The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Jacob Gathecha, practising certificate number - P/1610.*

**For and on behalf of:**
**KPMG Kenya**
**Certified Public Accountants**
**PO Box 40612-00100**
**Nairobi, Kenya**
**Date: 28 March 2023**

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

| | Note | 2022 KShs | 2021 KShs |
|---|---|---|---|
| **Revenue** | | **336,820,221** | **265,670,495** |
| Rental and related income | 5 | 354,291,682 | 297,549,052 |
| Straight-lining of lease income | 12 | (17,471,461) | (31,878,557) |
| **Other income** | | **31,021,470** | **33,972,521** |
| Interest income | 6 | 31,021,470 | 25,664,245 |
| Sundry income | 7 | - | 8,308,276 |
| **Operating expenses** | | **(243,364,633)** | **(229,548,302)** |
| Property expenses | 8 | (131,271,761) | (122,048,628) |
| Fund operating expenses | 9 | (112,092,872) | (107,499,674) |
| **Decrease in fair value of investment property** | | **(152,840,649)** | **(194,045,724)** |
| Fair value adjustment to investment property | 11 | (170,312,110) | (225,924,281) |
| Straight-lining of lease income | 12 | 17,471,461 | 31,878,557 |
| **Loss for the year** | | **(28,363,591)** | **(123,951,010)** |
| Other comprehensive income | | - | - |
| **Total comprehensive income attributable to unitholders for the year** | | **(28,363,591)** | **(123,951,010)** |
| Basic earnings per unit (KShs) | 10 | (0.16) | (0.68) |
| Headline earnings per unit (KShs) | 10 | 0.69 | 0.39 |
| Supplementary information: Distributable earnings per unit (KShs) | 10 | 0.78 | 0.56 |

The notes set out on pages 65 to 94 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

| ASSETS | Note | 2022 KShs | 2021 KShs |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 11 | 2,918,200,000 | 3,258,000,000 |
| Fair value of investment property for accounting purposes | | 2,871,751,305 | 3,194,079,844 |
| Straight-line lease accrual | 12 | 46,448,695 | 63,920,156 |
| Property and equipment | 13 | 34,620,979 | 13,272,024 |
| | | **2,952,820,979** | **3,271,272,024** |
| **Current assets** | | | |
| Investment property reclassified as held for sale | 14 | 200,400,000 | - |
| Term deposits | 15 | 287,049,120 | 246,686,432 |
| Trade and other receivables | 16 | 85,385,530 | 74,273,158 |
| Cash and cash equivalents | 17 | 89,908,591 | 120,294,160 |
| | | **662,743,241** | **441,253,750** |
| **TOTAL ASSETS** | | **3,615,564,220** | **3,712,525,774** |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves (Page 60)** | | | |
| Trust capital | 18 | 3,479,540,745 | 3,479,540,745 |
| Fair value reserve | 19 | (255,818,907) | (85,506,797) |
| Retained earnings | | 200,632,768 | 149,170,399 |
| | | **3,424,354,606** | **3,543,204,347** |
| **Current liabilities** | | | |
| Trade and other payables | 20 | **191,209,614** | **169,321,427** |
| **TOTAL EQUITY AND LIABILITIES** | | **3,615,564,220** | **3,712,525,774** |

The consolidated financial statements set out on pages 61 to 94 were approved and authorised for issue by the REIT Manager and by the Trustee on 28 March 2023 and were signed on their behalf by:

**ANDREW NDEGWA**
Chairman,
ICEA LION Asset Management Limited

**EINSTEIN KIHANDA**
Chief Executive Officer,
ICEA LION Asset Management Limited

**HENRY KARANJA**
Trustee Compliance Officer,
The Co-operative Bank of Kenya Limited

The notes set out on pages 65 to 94 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
# FOR THE YEAR ENDED 31 DECEMBER 2022

| 2022 | Trust capital KShs | Fair value reserve KShs | Retained earnings KShs | Total KShs |
|---|---|---|---|---|
| **Balance at 1 January 2022** | 3,479,540,745 | (85,506,797) | 149,170,399 | 3,543,204,347 |
| **Total comprehensive income** | | | | |
| Loss for the year | - | - | (28,363,591) | (28,363,591) |
| Transfer of fair value loss to non-distributable reserve (Note 19) | - | (170,312,110) | 170,312,110 | - |
| **Transactions with owners of equity** | | | | |
| Distribution to unitholders | - | - | (90,486,150) | (90,486,150) |
| **Balance at 31 December 2022** | **3,479,540,745** | **(255,818,907)** | **200,632,768** | **3,424,354,606** |

| 2021 | Trust capital KShs | Fair value reserve KShs | Retained earnings KShs | Total KShs |
|---|---|---|---|---|
| **Balance at 1 January 2021** | 3,479,540,745 | 140,417,484 | 155,780,508 | 3,775,738,737 |
| **Total comprehensive income** | | | | |
| Profit for the year | - | - | (123,951,010) | (123,951,010) |
| Transfer of fair value loss to non-distributable reserve (Note 19) | - | (225,924,281) | 225,924,281 | - |
| **Transactions with owners of equity** | | | | |
| Distribution to unitholders | - | - | (108,583,380) | (108,583,380) |
| **Balance at 31 December 2021** | **3,479,540,745** | **(85,506,797)** | **149,170,399** | **3,543,204,347** |

The notes set out on pages 65 to 94 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS
# FOR THE YEAR ENDED 31 DECEMBER 2022

| | Note | 2022<br>KShs | 2021<br>KShs |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 21 | 153,939,334 | 129,877,998 |
| **Net cash inflow from operating activities** | | **153,939,334** | **129,877,998** |
| **Cash flows from investing activities** | | | |
| Additions to investment property | 11 | (30,912,110) | (2,524,281) |
| Additions to property and equipment | 13 | (22,563,955) | - |
| Net increase in term deposits | | (40,362,688) | (96,248,733) |
| **Net cash used in investing activities** | | **(93,838,753)** | **(98,773,014)** |
| **Cash flows from financing activities** | | | |
| Distribution paid | 18 | (90,486,150) | (108,583,380) |
| **Net cash outflow from financing activities** | | **(90,486,150)** | **(108,583,380)** |
| **Net movement in cash and cash equivalents** | | **(30,385,569)** | **(77,478,396)** |
| Cash and cash equivalents at beginning of year | | 120,294,160 | 197,772,556 |
| **Cash and cash equivalents at end of year** | 17 | **89,908,591** | **120,294,160** |

The notes set out on pages 65 to 94 form an integral part of these consolidated financial statements.

ILAM
FAHARI I-REIT

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SEGMENTED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

| | Retail KShs | Office and light industrial KShs | Fund KShs | Total KShs |
|---|---|---|---|---|
| **Revenue** | **239,973,158** | **96,847,063** | **-** | **336,820,221** |
| Rental and related income | 178,284,421 | 112,830,915 | - | 291,115,336 |
| Recoveries | 51,833,846 | 11,342,500 | - | 63,176,346 |
| Straight-lining of lease income | 9,854,891 | (27,326,352) | - | (17,471,461) |
| **Other income** | **-** | **-** | **31,021,470** | **31,021,470** |
| Interest income | - | - | 31,021,470 | 31,021,470 |
| **Operating expenses** | **(98,206,751)** | **(33,065,010)** | **(112,092,872)** | **(243,364,633)** |
| Property admin expenses (excluding impairment loss ) | (98,385,983) | (33,065,010) | - | (131,450,993) |
| Impairment loss | 179,232 | - | - | 179,232 |
| Fund operating expenses | - | - | (112,092,872) | (112,092,872) |
| **Decrease in fair value of investment property** | **(40,367,001)** | **(112,473,648)** | **-** | **(152,840,649)** |
| Fair value adjustment to investment property | (30,512,110) | (139,800,000) | - | (170,312,110) |
| Straight-lining of lease income | (9,854,891) | 27,326,352 | - | 17,471,461 |
| **Net profit/(loss) for the year** | **101,399,406** | **(48,691,595)** | **(81,071,402)** | **(28,363,591)** |

## SEGMENTED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

| | Retail KShs | Office and light industrial KShs | Fund KShs | Total KShs |
|---|---|---|---|---|
| **Revenue** | **161,152,693** | **104,517,802** | **-** | **265,670,495** |
| Rental and related income | 141,509,683 | 100,537,508 | - | 242,047,191 |
| Recoveries | 46,066,167 | 9,435,694 | - | 55,501,861 |
| Straight-lining of lease income | (26,423,157) | (5,455,400) | - | (31,878,557) |
| **Other income** | **-** | **8,308,276** | **25,664,245** | **33,972,521** |
| Interest income | - | - | 25,664,245 | 25,664,245 |
| Sundry income | - | 8,308,276 | - | 8,308,276 |
| **Operating expenses** | **(97,001,370)** | **(25,047,258)** | **(107,499,674)** | **(229,548,302)** |
| Property admin expenses (excluding impairment loss ) | (91,282,998) | (25,062,234) | - | (116,345,232) |
| Impairment loss | (5,718,372) | 14,976 | - | (5,703,396) |
| Fund operating expenses | - | - | (107,499,674) | (107,499,674) |
| **Decrease in fair value of investment property** | **(173,901,124)** | **(20,144,600)** | **-** | **(194,045,724)** |
| Fair value adjustment to investment property | (200,324,281) | (25,600,000) | - | (225,924,281) |
| Straight-lining of lease income | 26,423,157 | 5,455,400 | - | 31,878,557 |
| **Net profit/(loss) for the year** | **(109,749,801)** | **67,634,220** | **(81,835,429)** | **(123,951,010)** |

## SEGMENTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

| ASSETS | Retail KShs | Office and light industrial KShs | Fund KShs | Total KShs |
|---|---|---|---|---|
| **Non-current assets** | **2,236,650,024** | **716,111,997** | **58,958** | **2,952,820,979** |
| Investment properties | 2,202,600,000 | 715,600,000 | - | 2,918,200,000 |
| Property and equipment | 34,050,024 | 511,997 | 58,958 | 34,620,979 |
| **Current assets** | **73,974,263** | **213,111,614** | **375,657,364** | **662,743,241** |
| Investment property reclassified as held for sale | - | 200,400,000 | - | 200,400,000 |
| Investment securities | - | - | 287,049,120 | 287,049,120 |
| Trade and other receivables | 70,846,741 | 6,940,167 | 7,598,622 | 85,385,530 |
| Cash and cash equivalents | 3,127,522 | 5,771,447 | 81,009,622 | 89,908,591 |
| **TOTAL ASSETS** | **2,310,624,287** | **929,223,611** | **375,716,323** | **3,615,564,220** |
| **EQUITY AND LIABILITIES** | | | | |
| **Capital and reserves** | **91,492,864** | **(228,608,080)** | **3,561,469,822** | **3,424,354,606** |
| Trust capital | - | - | 3,479,540,745 | 3,479,540,745 |
| Retained earnings | 86,311,771 | 32,391,920 | 81,929,077 | 200,632,768 |
| Fair value reserve | 5,181,093 | (261,000,000) | - | (255,818,907) |
| **Current liabilities** | | | | |
| Trade and other payables | **119,762,694** | **50,409,143** | **21,037,777** | **191,209,614** |
| **TOTAL EQUITY AND LIABILITIES** | **211,255,558** | **(178,198,937)** | **3,582,507,599** | **3,615,564,220** |

## SEGMENTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

| ASSETS | Retail KShs | Office and light industrial KShs | Fund KShs | Total KShs |
|---|---|---|---|---|
| **Non-current assets** | **2,214,918,900** | **1,056,334,072** | **19,052** | **3,271,272,024** |
| Investment properties | 2,202,200,000 | 1,055,800,000 | - | 3,258,000,000 |
| Property and equipment | 12,718,900 | 534,072 | 19,052 | 13,272,024 |
| **Current assets** | **66,904,011** | **10,502,527** | **363,847,212** | **441,253,750** |
| Investment securities | - | - | 246,686,432 | 246,686,432 |
| Trade and other receivables | 63,590,740 | 4,754,146 | 5,928,272 | 74,273,158 |
| Cash and cash equivalents | 3,313,271 | 5,748,381 | 111,232,508 | 120,294,160 |
| **TOTAL ASSETS** | **2,281,822,911** | **1,066,836,599** | **363,866,264** | **3,712,525,774** |
| **EQUITY AND LIABILITIES** | | | | |
| **Capital and reserves** | 78,656,821 | (81,083,891) | 3,545,631,416 | 3,543,204,346 |
| Trust capital | - | - | 3,479,540,745 | 3,479,540,745 |
| Retained earnings | 42,963,618 | 40,116,109 | 66,090,671 | 149,170,398 |
| Fair value reserve | 35,693,203 | (121,200,000) | - | (85,506,797) |
| **Current liabilities** | | | | |
| Trade and other payables | **125,714,018** | **32,283,018** | **11,324,392** | **169,321,428** |
| **TOTAL EQUITY AND LIABILITIES** | **204,370,839** | **(48,800,873)** | **3,556,955,808** | **3,712,525,774** |

## 1. REPORTING ENTITY

The ILAM Fahari I-REIT ("the REIT") is a closed ended property investment fund licensed under the Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 ("the Regulations") and listed on the Nairobi Securities Exchange. The REIT is managed by ICEA LION Asset Management Limited ("the REIT Manager").

The consolidated financial statements (hereinafter "the financial statements") of the REIT for the year ended 31 December 2022 comprise the REIT and its subsidiaries, and Limited Liability Partnership (LLP) as listed below. The address of its registered office is as follows:

4th Floor, ICEA LION Centre
Chiromo Road
P.O. Box 46143 – 00100
GPO Nairobi, Kenya

The REIT wholly owns the following property investment subsidiaries and Limited Liability Partnership (LLP):

- Greenspan Mall Limited
- Bay Holdings Limited
- Signature Assets Limited
- Starling Park Properties LLP

## 2. BASIS OF PREPARATION

### a. Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and in the manner required by the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013 ("the Regulations"). For the Regulation reporting purposes, in these financial statements, the balance sheet is represented by the statement of financial position, the profit and loss account is presented in the statement of profit or loss and other comprehensive income, the source and use of funds is represented by the statement of cash flows.

Details of the REIT's significant accounting policies are included in Note 3.

### b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the measurement of investment property that have been measured at fair value.

### c. Functional and presentation currency

The financial statements are presented in Kenya Shillings (KShs) (rounded off to the nearest shilling) which is also the REIT's functional currency.

### d. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and assumptions are based on the REIT Manager's best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is described in Note 4.

### e. Going concern

The REIT Manager has assessed the REIT's ability to continue as a going concern and is satisfied that the REIT has the resources to continue in business for the foreseeable future. Furthermore, the REIT Manager is not aware of any material uncertainties that may cast significant doubt upon the REIT's ability to continue as a going concern. Therefore, the financial statements have been prepared on the going concern basis.

### f. Changes in significant accounting policies

A number of other new standards were effective from 1 January 2022 but they do not have a material effect on the REIT's financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### a. Basis of consolidation

The annual financial statements incorporate the consolidated financial statements of the REIT and all subsidiaries and LLP which are controlled by it.

#### *i. Subsidiaries and LLP*

The subsidiaries and LLP are shown in Note 22 to the financial statements. Subsidiaries are entities controlled by the Group. Control exists when the investor has the power over the investee, exposure or right to receive variable returns and ability to use the power to affect the returns.

The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another. The results of subsidiaries and LLP are included in the consolidated financial statements from the effective date of acquisition to the effective date of disposal.

The acquisition method of accounting has been adopted to account for the cost of acquisition of the investments.

Cost comprises the fair value of any assets transferred, liabilities or obligations assumed and equity instruments issued. Any bargain purchase gain is recognised in profit or loss immediately. Transaction costs that the REIT incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The accounting policies used are consistent within all subsidiaries and the REIT. Adjustments are made when necessary to the consolidated financial statements of subsidiaries to bring their accounting policies in line with those of the REIT.

#### *ii. Transactions eliminated on consolidation*

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Transactions which result in changes in ownership levels, where the REIT has control of the subsidiary both before and after the transaction are regarded as equity transactions and are recognised directly in the statement of changes in equity. The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the parent.

## b. Financial instruments

### *i. Recognition and initial measurement*

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the REIT becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

### *ii. Classification and subsequent measurement*

**Financial assets**

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- fair value through other comprehensive income (FVOCI) – debt investment;
- fair value through other comprehensive income (FVOCI) – equity investment
- fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the REIT changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL.

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the REIT may irrevocably elect to present subsequent changes in the investment's fair value in Other Comprehensive Income (OCI). This election is made on an investment-by-investment basis. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the REIT may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces accounting mismatch that would otherwise arise.

**Financial assets – Business Model Assessment**

The REIT makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the REIT's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the REIT's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

### Financial assets — Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative cost), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the REIT considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the REIT considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the REIT's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

### Financial assets – Subsequent measurement gains and losses

| | |
|---|---|
| **Financial assets at FVTPL** | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend are recognised in profit or loss. |
| **Financial assets at amortised cost** | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment Interest losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |
| **Debt investments at FVOCI** | These assets subsequently measured at fair value. Interest income calculated using effective interest method, foreign exchange gains and losses, and impairment losses are recognized in the Profit or Loss (P&L). Other net gains and losses are recognized in the Other Comprehensive Income (OCI). On derecognition , gains and losses accumulated in the OCI are reclassified to P&L. |
| **Equity investments at FVOCI** | These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to P&L. |

**Financial liabilities — Classification, subsequent measurement and gains and losses**

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

### *iii. Derecognition*

**Financial assets**

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

The REIT enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

**Financial liabilities**

The REIT derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The REIT also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

### *iv. Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when and only when the REIT currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

## c. Tangible assets

### *i. Investment property*

Investment property comprises land, buildings and equipment (such as lifts and air-conditioning) that is considered an integral part of the building. Investment properties are held to earn rental income and for capital appreciation and are initially recorded at cost, including transaction costs on acquisition. Additional expenditure on investment properties is capitalised when it is probable that the future economic benefits will flow to the REIT. All other subsequent expenditure on the properties is expensed in the period in which it is incurred. Investment property held to earn rental income and for capital appreciation and not occupied by the REIT is classified as investment property.

Investment properties are subsequently measured at fair value, representing open market value, as determined by registered external valuers as at the financial year end. Open market value is determined by the valuer using a market approach and cost approach. The market approach comprises the discounted cash flow method or a net income capitalisation method as well as the comparable approach. Refer to Note 11 to the financial statements for key judgements used in the valuations. Any gains or losses are included in profit or loss.

Unrealized gains on revaluation of investment property are transferred from retained earnings to a non-distributable reserve. Likewise, unrealized losses on revaluation of investment property are transferred from retained earnings and set off against existing non-distributable reserves to the extent that such reserves are available for the particular investment property. Realised gains may be distributed.

In the alternative, any realised gains may be retained and reinvested in income producing real estate provided that if they are not invested within a period of two years of realization, such realised gains shall be distributed within two months of the second anniversary of realization. Investment property held under an operating lease relates to long-term land leases and is recognised in the REIT's statement of financial position at its fair value. This accounting treatment is consistently applied for all such long-term land leases.

An investment property shall be derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the profit or loss in the period of the retirement or disposal. The amount of consideration to be included in the gain or loss computation is determined in accordance with the requirements of IFRS 15 on determining the transaction price.

### *ii. Property and equipment*

All property and equipment is initially recorded at cost and thereafter stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the REIT and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Depreciation on property and equipment is calculated using the following annual rates:

| | | |
|---|---|---|
| Furniture and fittings | – | 12.5% on a reducing balance basis |
| Borehole equipment | – | 10% on straight-line basis |
| Borehole infrastructure | – | 4% on a straight-line basis |
| Office equipment | – | 12.5% on a straight-line and reducing balance basis; and |
| | – | 20% on a straight line basis |
| | – | 10% on a straight line basis |
| | – | 25% on a straight line basis |

The assets useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit. Such gains or losses are recognised in profit or loss.

## d. Impairment of assets

### *i. Non-derivative financial assets*

#### Financial instruments and contract assets

The REIT recognises loss allowances for expected credit losses (ECLs) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets

The REIT measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the REIT considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the REIT's historical experience and informed credit assessment and including forward-looking information.

The REIT assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The REIT considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the REIT in full, without recourse by the REIT to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the REIT is exposed to credit risk.

### Measurement of ECLs

The REIT's non-derivative financial assets have short durations. Accordingly, discounting of cash shortfalls to reflect the time value of money when measuring ECL's is not generally required.

### Credit impaired financial assets

At each reporting date, the REIT assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the REIT on terms that the REIT would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

### Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

**Write-off**

The gross carrying amount of a financial asset is written off when the REIT has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For tenant arrears, the REIT has a policy that where a tenant has absconded, or is declared insolvent, is in liquidation or has ceased trading for four months or longer and is thus unable to service the debt, that such arrears are written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the REIT's procedures for recovery of amounts due.

### *ii. Non-financial assets*

At each reporting date, the REIT reviews the carrying amount of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units (CGU's). Goodwill arising from a combination is allocated to CGUs or groups of CGU's that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in the profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## e. Revenue recognition

Revenue comprises gross rental and related income including all recoveries from tenants, net of Value Added Tax (VAT). Rental and related income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

Interest income for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, is recognised under other income in profit or loss using the effective interest rate method.

## f. Property letting commission and tenant installations

When considered material, letting commissions and tenant installations are written off over the period of the lease. Letting commissions paid in respect of new developments are capitalised to the cost of the property.

## g. Leases

At inception of a contract, the REIT assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the REIT uses the definition of a lease in IFRS 16.

At inception or on modification of a contract that contains a lease component, the REIT allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. Properties leased out under are included in investment properties in the statement of financial position as per Note 11. Lease income is recognised over the term of the lease on a straight-line basis.

## h. Finance income and costs

Finance income or costs for the REIT comprises interest income and expenses. Interest income is recognised under other income in profit or loss. Interest expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, are recognised under finance costs in profit or loss using the effective interest rate method. When a receivable is impaired, the REIT reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

## i. Non-distributable reserve

The non-distributable reserve relates to items that are not distributable to unitholders. This reserve comprises net unrealized fair value adjustments on the revaluation of investment property.

## j. Taxation

### Tax exemption

The REIT is exempt from income tax as per section 20(1)(c) of the Kenyan Income Tax Act. Accordingly, no income tax is accounted for in the REIT. All income generated and distributed by the REIT is taxable in the hands of the unitholders. The wholly owned subsidiaries of the REIT which are eligible investment assets in terms of the Regulations are exempt from income tax in line with section 20(1)(d) of the Income Tax Act as introduced by the Finance Act No.23 of 2019. Accordingly, no income tax is accounted for in these subsidiaries and LLP from the date of acquisition by the REIT.

The REIT is not liable for Capital Gains Tax on the disposal of directly held investment properties in terms of the Kenyan Income Tax Act; accordingly, no deferred tax is provided on the revaluation of the properties. The wholly owned subsidiaries of the REIT which are eligible investment assets in terms of the Regulations are exempt from Capital Gains Tax in line with section 20(1)(d) of the Income Tax Act. Accordingly, no deferred tax is provided on the revaluation of the properties in these subsidiaries from the date of acquisition by the REIT.

## k. Dividend distribution

The REIT has an obligation to distribute to the unitholders, within four months after the end of each financial year, at least eighty percent of net income after tax from sources other than realized gains from disposal of investment property. The REIT may distribute more than once annually. Distributions to unitholders are recognised as a liability in the period in which they are declared once the amount of distribution has been calculated.

## l. Trust capital

Units are classified as equity when there is no obligation to transfer cash or other assets to the holder. Incremental costs directly attributable to the issue of new units or options are shown in equity as a deduction from the proceeds.

## m. Foreign currency

A foreign currency transaction is recorded, on initial recognition in Kenya Shillings, by applying to the foreign currency amount the spot exchange rate between the Kenya Shillings and the foreign currency at the date of the transaction. The REIT's functional and reporting currency is Kenya Shillings.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Kenya Shillings by applying to the foreign currency amount the exchange rate between the Kenya Shillings and the foreign currency at the date of the cash flow.

## n. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The REIT has determined that its chief operating decision maker is the REIT Manager.

The REIT operates in the following primary business segments:

- Retail – comprising retail outlets;
- Office – comprising office buildings and office parking;
- Industrial – industrial buildings such as warehouses and factories;
- Financial assets – comprising at amortised cost, at FVOCI and finally FVTPL at a REIT level.

In certain instances, a building might comprise a combination of office and industrial or retail and office. Where each component is significant in size for segment reporting purposes, the building is classified as a combination of both components; otherwise the dominant component would determine the classification.

## o. Earnings per unit

Basic and diluted earnings per unit data for ordinary units are presented in the financial statements. Basic earnings per unit is calculated by dividing the profit or loss attributable to ordinary unit holders of the REIT by the weighted average number of ordinary units outstanding during the period. Diluted earnings per unit is determined by adjusting the profit or loss attributable to ordinary unit holders and the weighted average number of ordinary units outstanding for the effects of all dilutive potential ordinary units, if any.

## p. Fair value

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 in the principal or, in its absence, the most advantageous market to which the REIT has access at that date. The fair value of a liability reflects its non-performance risk.

The REIT measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the REIT uses the valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. If an asset or a liability measured at fair value has a bid price and an ask price, then the REIT measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the REIT determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

### q. New standards and interpretations

**New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2022**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2022, and have not been applied in preparing these financial statements.

The REIT does not plan to adopt these standards early. These are summarised below:

| DESCRIPTION | EFFECTIVE DATE |
|---|---|
| **Newly effective standards for 01 January 2022 to 31 December 2022** | |
| Covid-19 - Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16) | 1 April 2021 |
| Onerous Contracts – Cost of Fulfilling a contract (Amendments to IAS 37) | 1 January 2022 |
| Annual improvements to IFRS Standards 2018-2020 | 1 January 2022 |
| Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) | 1 January 2022 |
| Reference to the Conceptual Framework (Amendments to IFRS 3) | 1 January 2022 |
| **Standards available for early adoption** | |
| IFRS 17 Insurance Contracts | 1 January 2023 |
| Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) | 1 January 2023 |
| Definition of Accounting Estimates (Amendments to IAS 8) | 1 January 2023 |
| Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) | 1 January 2023 |
| Classification of Liabilities as Current or Non-current (Amendment to IAS 1) | 1 January 2024 |
| Lease Liability in a Sale and Leaseback Amendments to IFRS 16 | 1 January 2024 |
| Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28 | To be determined |

The adoption of these new standards is not expected to have a significant impact on the financial statements of the REIT.

## 4. KEY JUDGMENTS AND ESTIMATES

### Key judgments and sources of estimation uncertainty

The preparation of the financial statements necessitates the use of estimates, assumptions and judgments. The estimates and assumptions affect the reported amounts of assets, liabilities and contingent liabilities at the statement of financial position date as well as affecting the reported income and expenses for the period.

Although estimates are based on management's best knowledge and judgment of current facts as at the statement of financial position date, the actual outcome may potentially differ significantly from these estimates.

### a. Valuation of investment property

The valuation of investment property requires judgment in the determination of future cash flows and the appropriate discount rate to discount those future cash flows as well as the appropriate capitalisation rate.

Future cash flows are based on the contractual rental income and budgeted expenditure. The discount rate and capitalisation rates are informed by market conditions and unique or specific attributes of the investment property. Changes in assumptions of future cash flows, discount rates and capitalisation rates have a significant impact on the value of investment property. Management relies on the use of experts in determining the market value of investment properties and interrogates the assumptions applied by the experts to assess their reasonableness. The valuer adopted a capitalisation rate (discount rate) ranging from 13% to 14% (2021: 11.5% to 13.5%) in capitalizing the future cash flows to arrive at the fair value of the property. These have been set out in Note 11. The valuer also used comparable transaction method and offer prices to arrive at the value of one of the properties which is earmarked for sale.

### b. Impairment of financial assets

At the end of each reporting period, the REIT reviews the carrying amounts of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. An Expected Credit Loss (ECL) model to assess any need for impairment of financial assets. Under the ECL model, the REIT calculates the allowance for credit losses by considering on a discounted basis, the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring.

A number of significant judgments are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Determining the default period;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;

The carrying amount of impaired receivables is set out in Note 23(b)(ii).

### c. Property and equipment

Critical estimates are made by the REIT Manager in determining depreciation rates for property and equipment. The rates used are set out in Note 3(c)(ii).

### d. Taxation

As disclosed in Note 3(j), the Kenya Revenue Authority (KRA) provided an opinion on REIT owned subsidiaries tax exemptions to November 2017 and the Finance Act No. 23 of 2019 further clarified this issue. The REIT has applied this policy throughout the period with regards to its subsidiaries.

## 5. RENTAL AND RELATED INCOME

| | 2022<br>KShs | 2021<br>KShs |
|---|---|---|
| Rental income* | 291,115,336 | 240,271,000 |
| Recoveries | 59,771,042 | 55,501,861 |
| Promotional income | 3,405,304 | 1,776,191 |
| | **354,291,682** | **297,549,052** |

*The rental income includes revenue from parking and exhibition in addition to the contractual rental revenue in line with leases.

## 6. INTEREST INCOME

| | 2022 KShs | 2021 KShs |
|---|---|---|
| Interest on fixed deposits and treasury bills | 26,412,946 | 23,387,709 |
| Interest on call deposits | 4,608,524 | 2,276,536 |
| | **31,021,470** | **25,664,245** |

## 7. SUNDRY INCOME

| | 2022 KShs | 2021 KShs |
|---|---|---|
| VAT written back | - | 8,308,276 |
| | **-** | **8,308,276** |

## 8. PROPERTY EXPENSES

The following items are included in property expenses:

| **Property administration expenses** | 2022 KShs | 2021 KShs |
|---|---|---|
| Utility expenses | 24,124,257 | 23,717,615 |
| Repairs and maintenance | 22,325,749 | 8,139,906 |
| Property management fees | 13,597,128 | 13,488,665 |
| Gardening and cleaning | 13,268,218 | 12,043,231 |
| Security | 10,987,440 | 10,167,567 |
| Insurance | 6,399,726 | 4,620,521 |
| Advertising and sales promotion | 5,753,414 | 3,180,736 |
| Irrecoverable withholding tax | 2,705,087 | 22,791,036 |
| Property valuation fees | 1,933,334 | 2,002,934 |
| Legal and professional fees | 1,317,855 | 1,322,481 |
| Statutory health and safety audits | 558,400 | 144,057 |
| Licences and permits | 466,215 | 471,960 |
| Letting fees | 397,997 | 4,402,240 |
| Movement in bad debts provision | (179,232) | 5,703,396 |
| | **103,655,588** | **112,196,345** |

| Other operating property expenses | 2022 KShs | 2021 KShs |
|---|---|---|
| Other expenses | 14,758,727 | - |
| Audit fees - current period | 4,957,167 | 3,847,116 |
| - service charge | 948,975 | 853,000 |
| Consultancy fees | 4,221,829 | 2,254,425 |
| Depreciation | 1,209,906 | 1,249,897 |
| Sundry expenses | 519,108 | 351,090 |
| Postage and telephone | 468,000 | 527,158 |
| Rent and rates | 429,704 | 557,062 |
| Bank charges | 65,288 | 73,111 |
| Staff expenses | 28,704 | 59,799 |
| Subscription | 8,765 | 53,475 |
| Printing and stationery | - | 26,150 |
| | **27,616,173** | **9,852,283** |
| | **131,271,761** | **122,048,628** |

## 9. FUND OPERATING EXPENSES

The following items are included in fund operating expenses:

| | 2022 KShs | 2021 KShs |
|---|---|---|
| Asset management fees | 70,000,000 | 70,000,000 |
| Trustee and custody fees | 23,271,412 | 24,741,116 |
| Business restructuring costs | 5,525,000 | - |
| Professional and other fees | 3,993,916 | 4,190,741 |
| Audit fees | 3,908,510 | 3,643,363 |
| Public relations and marketing | 2,363,510 | 3,252,323 |
| Legal fees | 1,525,000 | - |
| Licenses | 958,763 | 995,196 |
| Consultancy | 540,615 | 542,500 |
| Depreciation | 5,094 | 3,687 |
| Bank charges | 1,052 | 47,550 |
| General administration | - | 83,199 |
| | **112,092,872** | **107,499,674** |

## 10. BASIC AND HEADLINE EARNINGS PER UNIT

| | 2022 KShs | 2021 KShs |
|---|---|---|
| Basic earnings – comprehensive income attributable to unit holders for the period | (28,363,591) | (123,951,010) |
| Adjusted for:<br>Fair value adjustment to investment properties (including straight-line lease accrual movement) | 152,840,649 | 194,045,724 |
| **Headline earnings** | **124,477,058** | **70,094,714** |
| Adjusted for:<br>Straight-line lease accrual movement | 17,471,461 | 31,878,557 |
| **Distributable earnings** | **141,948,519** | **101,973,271** |
| Distribution to unitholders (Note 18) | **117,631,995** | **90,486,150** |
| Distributable earnings per unit (KShs) | 0.78 | 0.56 |
| Distribution per unit (KShs) | 0.65 | 0.50 |
| Basic earnings and diluted earnings per unit (KShs) | (0.16) | (0.68) |
| Headline earnings per unit (KShs) | 0.69 | 0.39 |
| Weighted average units in issue (units) | 180,972,300 | 180,972,300 |
| Units in issue at the end of the period (units) | **180,972,300** | **180,972,300** |

## 11. INVESTMENT PROPERTIES

| | 2022 KShs | 2021 KShs |
|---|---|---|
| At 1 January | 3,258,000,000 | 3,481,400,000 |
| Additions - capital expenditure | 30,912,110 | 2,524,281 |
| Fair value adjustment to investment properties | (170,312,110) | (225,924,281) |
| Transfer to assets investment property reclassified as held for sale | (200,400,000) | - |
| **At 31 December** | **2,918,200,000** | **3,258,000,000** |

The investment properties were independently valued by Jones Lang LaSalle Kenya (Pty) Limited as at 31 December 2022 and 31 December 2021. The valuers are registered and licensed by the Valuers Registration Board of Kenya and have the relevant experience and knowledge of valuing the various properties in the portfolio.

In determining the market value of the investment properties, the valuers used the discounted cash flow methodology where a discount rate (capitalisation rate) is applied to a series of cash flows for future periods to discount them to a present value. The valuer also used comparable transaction method and offer prices to arrive at the value of one of the properties which is earmarked for sale.

In addition, the valuer also used the cost approach to determine the insurance value of the property. This approach is based on the principle that the price that a buyer in the market would pay for the asset being valued would, unless undue time, inconvenience, risk or other factors are involved, be not more than the cost to purchase or construct an equivalent asset. The value of land was based on the market rates prevailing in the areas of study (has been ignored for insurance purposes). Cost of construction was obtained from cost manuals as provided by quantity surveyors.

### Measurement of fair value

The fair values of investment property are categorised as level 3.

### Unobservable inputs

| | 2022 % | 2021 % |
|---|---|---|
| **Retail sector** | | |
| Term yield | 14.0 | 12.5 |
| Reversionary yield | 9.5 | 9.25 |
| Discount rate | 14.0 | 12.5 |
| **Office and light industrial** | | |
| Term yield | 13.0 – 14.0 | 11.5 – 13.5 |
| Reversionary yield | 9.25 | 9.25 – 9.75 |
| Discount rate | 13.0 – 14.0 | 11.5 – 13.5 |

The capitalisation rates were computed by the valuer taking into account the market data obtained from the field research undertaken, including comparable sales. This was adjusted to reflect the term and reversion based on the property lettings.

### Valuation techniques and significant unobservable inputs

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|
| Investment Property | **Discounted cash flow method:** The methodology uses the discounted cash flows where a discount rate (capitalisation rate) is applied to a series of cash flows for future periods to discount them to a present value. | 1. Discount rate<br>2. Reversionary yield | The estimated fair values would increase/ (decrease) if:<br>1. The discount rate was lower/ (higher).<br>2. Reversionary yield was lower/ (higher). |

## 12. STRAIGHT-LINE LEASE ACCRUAL

| | 2022 KShs | 2021 KShs |
|---|---|---|
| At 1 January | 63,920,156 | 95,798,713 |
| Change in straight-line lease accrual through profit or loss | (17,471,461) | (31,878,557) |
| **At 31 December** | **46,448,695** | **63,920,156** |

The straight-line lease income accrual relates to the smoothing of the lease rental income over the contract period of the leases.

## 13. PROPERTY AND EQUIPMENT

| 2022 | Furniture and equipment KShs | Other equipment KShs | Total KShs |
|---|---|---|---|
| **Cost** | | | |
| **At 1 January 2022** | **5,442,382** | **13,383,919** | **18,826,301** |
| Additions | - | 22,563,955 | 22,563,955 |
| **At end of year** | **5,442,382** | **35,947,874** | **41,390,256** |
| | | | |
| **Accumulated depreciation** | | | |
| At start of year | 3,020,189 | 2,534,088 | 5,554,277 |
| Charge for the year | 302,774 | 912,226 | 1,215,000 |
| **At end of year** | **3,322,963** | **3,446,314** | **6,769,277** |
| **Net book value as at 31 December 2022** | **2,119,419** | **32,501,560** | 34,620,979 |

| 2021 | Furniture and equipment KShs | Other equipment KShs | Total KShs |
|---|---|---|---|
| **Cost** | | | |
| **At 1 January 2021 and 31 December 2021** | **5,442,382** | **13,383,919** | **18,826,301** |
| **Accumulated depreciation** | | | |
| At start of year | 2,674,162 | 1,626,531 | 4,300,693 |
| Charge for the year | 346,027 | 907,557 | 1,253,584 |
| **At end of year** | **3,020,189** | **2,534,088** | **5,554,277** |
| **Net book value as at 31 December 2021** | **2,422,193** | **10,849,831** | **13,272,024** |

## 14. INVESTMENT PROPERTY - ASSET HELD FOR SALE

| | 2022 KShs | 2021 KShs |
|---|---|---|
| At 1 January | - | - |
| Transfer from investment property (Note 11) | 200,400,000 | - |
| **At 31 December** | **200,400,000** | **-** |

The REIT Manager undertook a strategic review of the REIT in 2021 and proposed the disposal of non-core assets as part of the strategy. The Trustee approved the strategy in 2022 and two properties i.e Highway house under Signature Assets Limited and Bay Holdings property under Bay Holdings Limited were earmarked for sale. Accordingly, the properties are presented as an asset held for sale. Efforts to sell the properties have started and a sale is expected by the end of the year ending 31 December 2023. Various offers relating to Highway house have also been received.

The investment property held for sale has been fair valued as at 31st December 2022 similar to other investment properties. See Note 11 on the valuation of investment property.

## 15. TERM DEPOSITS

| | 2022 KShs | 2021 KShs |
|---|---|---|
| Term deposits | **287,049,120** | **246,686,432** |

The term deposits relate to amounts with original maturities longer than 90 days. Term deposits are invested in top tier banks.

## 16. TRADE AND OTHER RECEIVABLES

| | 2022 KShs | 2021 KShs |
|---|---|---|
| Trade receivables | 56,355,313 | 53,778,197 |
| Service charge debtors | 7,038,104 | 7,038,104 |
| Less: Provision for doubtful debts | (42,030,381) | (42,209,613) |
| Net trade receivables | 21,363,036 | 18,606,688 |
| Value Added Tax (VAT) receivable | 23,501,948 | 16,452,244 |
| Prepayments | 6,048,134 | 6,197,324 |
| Sundry debtors | 34,472,412 | 33,016,902 |
| | **85,385,530** | **74,273,158** |

The carrying amounts of trade and other receivables approximate their fair value due to the short-term nature of these financial assets and liabilities. All amounts under trade and other receivables are denominated in Kenya Shillings.

## 17. CASH AND CASH EQUIVALENTS

| | 2022 KShs | 2021 KShs |
|---|---|---|
| Cash deposits | 73,700,178 | 109,194,596 |
| Cash at bank | 16,198,413 | 11,096,432 |
| Cash at hand | 10,000 | 3,132 |
| | **89,908,591** | **120,294,160** |

Fixed deposits included in cash and cash equivalents include fixed deposits with original maturities of 90 days or less. Fixed and call deposits are invested with top tier banks. For the purposes of the cash flow statement, cash and cash equivalents comprises of cash in hand and deposits held with banks with maturities as described above.

## 18. TRUST CAPITAL

| | 2022 KShs | 2021 KShs |
|---|---|---|
| **(a) Authorised as at 1 January and 31 December**<br>625,000,000 units at a nominal value of KShs. 20 per unit less capitalised unit issue costs | **12,500,000,000** | **12,500,000,000** |
| **(b) Issued and paid as at 1 January and 31 December**<br>180,972,300 units at a nominal value of KShs. 20 per unit net of unit issue costs of KShs. 139,905,255 | **3,479,540,745** | **3,479,540,745** |

The issued units are under the control of the REIT Manager and the Trustee, subject to the provisions of the Trust Deed, the Regulations and the Listing Requirements of the Nairobi Securities Exchange.

### Distribution

On 29th March 2022, the Trustee approved the declaration and payment of a distribution of KShs. 90,486,150 in relation to the year ended 31 December 2021. After the reporting date 31 December, the following distribution was recommended by the REIT Manager and approved by the Trustee:

| | 2022 KShs | 2021 KShs |
|---|---|---|
| KShs 0.65 (2021: KShs. 0.50) distribution per qualifying unit | **117,631,995** | **90,486,150** |

The distribution of KShs. 117,631,995 has not been recognised as a liability as at 31 December 2022 as it was declared after the end of the financial reporting period (2021: KShs. 90,486,150). The unitholders are entitled to receive a distribution as declared from time to time and are entitled to one vote per unit at general meetings of the REIT. All unitholders rank equally with regard to the REIT's residual assets.

## 19. FAIR VALUE RESERVE

| | 2022 KShs | 2021 KShs |
|---|---|---|
| At 1 January | (85,506,797) | 140,417,484 |
| Fair value adjustment on investment properties (Note 11) | (170,312,110) | (225,924,281) |
| **At 31 December** | **(255,818,907)** | **(85,506,797)** |

The fair value reserve relates to the change in fair value on investment properties. The reserve is non-distributable.

## 20. TRADE AND OTHER PAYABLES

| | 2022 KShs | 2021 KShs |
|---|---|---|
| Trade payables | 26,211,016 | 19,715,714 |
| Tenant deposits | 93,926,510 | 88,816,737 |
| Accruals | 58,825,478 | 20,940,303 |
| Other payables | 12,246,610 | 39,848,673 |
| | **191,209,614** | **169,321,427** |

| | | |
|---|---|---|
| **Net loss for the year** | **(28,363,591)** | **(123,951,010)** |
| Adjusted for:<br>Depreciation (Note 13) | 1,215,000 | 1,253,584 |
| Fair value adjustment to investment property (Note 11) | 170,312,110 | 225,924,281 |
| | **143,163,519** | **103,226,855** |
| **Working capital changes in:** | | |
| Trade and other receivables | (11,112,372) | (34,662,821) |
| Trade and other payables | 21,888,187 | 61,313,964 |
| | **10,775,815** | **26,651,143** |
| **Cash generated from operations** | **153,939,334** | **129,877,998** |

## 21. RELATED PARTY TRANSACTIONS AND BALANCES

### a. Identification of related parties

ICEA LION Asset Management Limited is the manager of the REIT having replaced STANLIB Kenya Limited on 18 May 2020. The transaction was approved by the Capital Markets Authority after meeting all conditions precedent.

The Co-operative Bank Kenya Limited is the authorised Trustee of the REIT in terms of the Regulations and the Trust Deed.

Knight Frank Kenya Limited is the property manager for the REIT's four investment properties; having replaced CBRE Excellerate whose contract ended on 31 March 2021.

As disclosed in the information memorandum of the REIT, the REIT Manager, the Trustee and the Property Manager earn a management fee, custodial fee and property management fee respectively, for services rendered to the REIT.

The REIT has invested in the entities below which are wholly owned subsidiaries and Limited Liability Partnership (LLP):

- Greenspan Mall Limited
- Bay Holdings Limited
- Signature Assets Limited
- Starling Park Properties LLP

### b. Related party transactions

| | 2022 KShs | 2021 KShs |
|---|---|---|
| Asset management fee paid to ICEA LION Asset Management Limited | 70,000,000 | 70,000,000 |
| Trustee fees paid to Co-operative Bank of Kenya Limited | 21,547,604 | 22,908,441 |
| Custodial fees paid to Co-operative Bank Kenya Limited | 1,723,808 | 1,832,675 |
| Property Management fees paid to Knight Frank Kenya | 13,597,128 | 14,296,375 |
| Property Management fees paid to CBRE Excellerate | - | 3,585,653 |
| Other administration fees paid to Co-operative Bank of Kenya Limited for cheque writing fees | 970,098 | 1,101,047 |
| Bank charges paid to Co-operative Bank | 66,340 | 47,550 |

The transactions with related parties are repayable on demand and are interest free.

ICEA LION Asset Management held the following units in the REIT as at 31 December 2022 (2021 – 5,000,000).

| Holder's name | Number of units | % Holding |
|---|---|---|
| ICEA LION Asset Management Limited | 5,000,000 | 2.76 |

This transaction with the related party was at arm's length.

### c. Related party balances

At 31 December, the REIT had the following cash balances held with The Co-operative Bank of Kenya Limited:

| Bank account name | Entity | 2022 KShs | 2021 KShs |
|---|---|---|---|
| Investment account - fixed deposits | REIT | - | 130,000,000 |
| Investment account - call deposits | REIT | - | 63,000,000 |
| Investment account | REIT | 7,309,443 | 2,037,913 |
| ILAM REIT Rent Coll A/C - Greenspan Mall | Greenspan Mall | 2,709,565 | 2,077,534 |
| Knight Frank Kenya Ltd - Greenspan Mall A/c | Greenspan Mall | 407,957 | 1,232,604 |
| Knight Frank Kenya Ltd - Starling Park Properties | Starling Park Properties LLP | 4,954,187 | 4,632,175 |
| ILAM REIT Rent Coll A/C – Signature International | Signature Assets Limited | 793,513 | 27,300 |
| ILAM REIT Rent Coll A/C - Bay Holdings | Bay Holdings Limited | 23,747 | 1,088,906 |
| **TOTAL** | | **16,198,412** | **204,096,432** |

The transactions with related party are repayable on demand and are interest free.

## 22. LEASES

### Leases as lessor

**Operating lease**

The REIT leases out its investment property. The REIT has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Contractual rental income recognised by the REIT during the year ended 31 December 2022 was KShs. 291,115,336 (2021: KShs. 240,271,000).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

| Operating leases under IFRS 16 | 2022 KShs |
|---|---|
| Less than one year | 207,660,658 |
| One to two years | 158,756,826 |
| Two to three years | 115,518,340 |
| Three to four years | 103,028,900 |
| Four to five years | 97,639,479 |
| More than five years | 277,829,531 |
| **TOTAL** | **960,433,734** |

| Operating leases under IFRS 16 | 2021 KShs |
|---|---|
| Less than one year | 233,835,087 |
| One to two years | 223,506,945 |
| Two to three years | 123,526,438 |
| Three to four years | 93,268,102 |
| Four to five years | 79,414,904 |
| More than five years | 314,718,153 |
| **TOTAL** | **1,068,269,629** |

The REIT earned rental income of KShs 291,115,336 from the four subsidiaries, see Note 5.
The REIT incurred property expenses of KShs 103,655,588 amount, see Note 8.

## 23. RISK MANAGEMENT

### a. Risk governance structures, roles and responsibilities

The Board of Directors of the REIT Manager is primarily responsible for ensuring the REIT's activities are within the adopted risk management framework of the REIT.

### b. Financial risk management

The REIT's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The REIT's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance, but the REIT does not hedge any risks.

Financial risk management is carried out under policies approved by the REIT Manager.

#### *i. Market risk*

**Foreign exchange risk**
Foreign exchange risk arises from assets and liabilities denominated in foreign currency. There were no foreign currency denominated balances as at 31 December 2022.

**Price risk**
The REIT does not hold any financial instruments subject to price risk.

**Cash flow and fair value interest rate risk**

The REIT holds interest accruing financial assets and is thus exposed to interest rate risk. The REIT invested in call and fixed deposits during the year under review. These investments generated a combined weighted average fixed interest rate of 9.4% in the current year (2021: 8.4%).

**Sensitivity analysis**
During the year, if the interest rate at that date had been 1% lower/higher, with all other variables held constant, net profit for the year would have been KShs. 256,642 (2020: KShs. 224,120) lower/higher, arising mainly as a result of lower/higher interest income on cash deposits at banks.

The REIT Manager manages interest rate risks by monitoring interest rates on a regular basis. There were no borrowings or loans outstanding during the year under review which attracted interest exposure to the entity.

#### *ii. Credit risk*

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation and cause the REIT to incur a financial loss.

The REIT is exposed to credit risk on its financial assets, i.e. trade and other receivables and cash. The risk of tenant default is managed through conducting tenant credit worthiness checks and the collection and maintenance of security deposits prior to tenants taking occupation.

Where the recoverability of receivables is doubtful, a provision for doubtful debts is raised, and where it is certain that a receivable is not collectible, it is impaired, in both cases, net of security deposits held. Cash is invested with financial institutions with a good quality credit record.

The gross amount that best represents the REIT's maximum exposure to credit risk at 31 December is made up as follows:

| | 2022 KShs | 2021 KShs |
|---|---|---|
| Trade receivables (Note 16) | 56,355,313 | 53,778,197 |
| Service charge debtors (Note 16) | 7,038,104 | 7,038,104 |
| Sundry debtors (Note 16) | 34,472,412 | 33,016,902 |
| Term deposits (Note 15) | 287,049,120 | 246,686,432 |
| Cash and cash equivalents less cash in hand (Note 17) | 89,898,591 | 120,291,028 |
| | **474,813,540** | **460,810,663** |

Collateral is held in respect of trade receivables comprising tenant security deposits.

**Debtors ageing**
At the reporting date, the ageing of the trade receivables was as follows:

| | 2022 KShs | 2021 KShs |
|---|---|---|
| Current | 3,032,814 | - |
| Past due 1 – 30 days | 3,753,736 | 1,558,617 |
| Past due 31 – 90 days | 7,758,105 | 3,847,930 |
| Past due 91 – 120 days | 452,542 | 4,859,281 |
| Over 120 days | 41,358,116 | 43,512,371 |
| | **56,355,313** | **53,778,199** |

The REIT's exposure to credit risk is influenced mainly by the individual characteristics of each customer, the demographics of the REIT's customer base, including the default risk of the industry and country in which customers operate. The REIT has established a credit policy under which each new customer is analysed individually for credit worthiness acceptance. The REIT has a debt provisioning policy that represents its estimate of expected losses in respect of trade and other receivables.

Collateral is held in respect of the trade receivables in the form of cash deposits totalling KShs. 69,986,214 and bank guarantees amounting to KShs 23,940,296 is as at 31 December 2022 (2021: cash deposit – KShs 66,010,542 and bank guarantees – KShs 25,230,607)

The REIT utilizes the Moody's probability of default factor for the retail industry of 12.8% (2021: 12.8%) to determine the expected credit losses. Where the expected credit loss is higher, a specific provision greater than the 12.8% (2021: 12.8%) is applied as applicable.

The REIT Manager believes that the unimpaired amounts outstanding for longer than 30 days are still collectible in full based on the extensive analysis of tenant credit risk and payment behaviours of tenants. The REIT Manager further believes that adequate provisions have been raised against tenant debtors considered doubtful.

### Movement in provision for doubtful debts

The movement in the allowance for impairment in respect of trade and other receivables during the period was as follows:

| | 2022 KShs | 2021 KShs |
|---|---:|---:|
| Balance at the beginning of the period | 42,209,613 | 36,506,217 |
| Movement in provision for bad debts (Note 8 | (179,232) | 5,703,396 |
| **Balance at 31 December (Note 16)** | **42,030,381** | **42,209,613** |

During the year under review and comparative period, none of the bad debts were written off.

### *iii. Liquidity risk*

Liquidity risk is the risk that the REIT, although solvent is not able to meet its payment obligations as they fall due (funding liquidity risk), or is only able to do so at materially disadvantageous terms (market liquidity risk). Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Management monitors rolling forecasts of the REIT's liquidity reserves on the basis of expected cash flow. Below is the outline of the REIT's current liabilities:

| | Less than one year KShs |
|---|---:|
| As at 31 December 2022:<br>Trade payables and accrued expenses (Note 20) | **191,209,613** |
| As at 31 December 2021:<br>Trade payables and accrued expenses (Note 20) | **169,321,427** |

## c. Fair value hierarchy

### *i. Determination of fair value*

The REIT has not disclosed the fair values of short-term financial assets and short-term financial liabilities since their fair values approximate to the carrying amounts as shown in the statement of financial position.

### *ii. Valuation hierarchy*

The valuation hierarchy, and types of instruments classified into each level within that hierarchy, is set out below:

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Fair value determined using:** | Unadjusted quoted prices in an active market for identical assets and liabilities | Valuation models with directly or indirectly market observable inputs | Valuation models using significant non-market observable inputs |
| **Types of financial assets:** | Actively traded government and other agency securities<br><br>Listed derivative instruments<br><br>Listed equities | Corporate and other government bonds and loans<br><br>Over-the-counter (OTC) derivatives | Corporate bonds in illiquid markets<br><br>Highly structured OTC derivatives with unobservable parameters |
| **Types of financial liabilities:** | Listed derivative instruments | Over-the-counter (OTC) derivatives | Highly structured OTC derivatives with unobservable parameters |

The fair values of investment property are categorised as level 3. The table below shows the classification of non-financial assets held at fair value into the valuation hierarchy set out below as at 31 December.

| 2022 in KShs | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets**<br>Investment property | - | 30,000,000 | 3,088,600,000 | 3,118,600,000 |
| **Total assets** | **-** | **30,000,000** | **3,088,600,000** | **3,118,600,000** |

| 2021 in KShs | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets**<br>Investment property | - | - | 3,258,000,000 | 3,258,000,000 |
| **Total assets** | **-** | **-** | **3,258,000,000** | **3,258,000,000** |

### Details of changes in valuation techniques

There have been no changes in the valuation techniques for three properties during the period under review. Investment property was fair valued using the discounted cash flow and cost approaches. The valuation technique for one of the properties earmarked for sale changed from discounted cash flow to comparable transaction method. Refer to Note 11 to the financial statements.

## 24. CAPITAL COMMITMENT

The REIT had the following capital commitments in respect of building projects authorised and contracted but not yet paid:

| | 2022<br>KShs | 2021<br>KShs |
|---|---|---|
| Greenspan Mall refurbishment | 9,100,000 | 91,886,865 |
| | **9,100,000** | **91,886,865** |

## 25. CONTINGENT LIABILITIES

As at 31 December 2022, the REIT had no significant contingent liabilities (2021: None).

## 26. SUBSEQUENT EVENTS

The following are 'non-adjusting' events that occurred after the reporting period:

### Declaration of a distribution

a. In line with IAS 10, Events after the Reporting Period, the declaration of the KShs. 117,631,995 distribution in relation to the 2022 financial year occurred after the end of the reporting period, resulting in a non-adjusting event that is not recognised in the financial statements. Refer to Note 18 to the financial statements for the distribution declared.

b. The REIT Manager and the Trustee have undertaken a strategic review which, if approved and implemented, may involve an operational restructuring of the REIT. The completion of the process is subject to, inter alia, regulatory and unitholders approvals. A detailed announcement including all the relevant information on the proposed process will be available on the REIT's website, www.ilamfahaiireit.com at an appropriate time.

Other than the above, there are no other subsequent events.

## GLOSSARY

| Term or abbreviation | Meaning |
|---|---|
| **"the Act"** | means The Capital Markets Act, Chapter 485A of the Laws of Kenya, (Amended by Act No. 48 of 2013); |
| **"AGM"** | means Annual General Meeting; |
| **"CBD"** | means central business district; |
| **"CDSC"** | means Central Depository and Settlement Corporation Limited; |
| **"CED"** | means Civil Engineering Design (K) Ltd; |
| **"CGU"** | means Cash-Generating Unit; |
| **"CMA" or "Capital Markets Authority" or "Authority"** | means the Capital Markets Authority in Kenya established by statute (and includes any successor thereto (whether immediate or derivative); |
| **"Co-op Bank"** | means The Co-operative Bank of Kenya Limited; |
| **"Distribution Date"** | means date by which distributions to unitholders are required to be made, being 30 April annually; |
| **"Eligible Assets"** | means the eligible real estate and/or eligible cash investments that the ILAM Fahari Property Income Fund is permitted to invest in; |
| **"FVOCI"** | means fair value through other comprehensive income; |
| **"FVTPL"** | means fair value through profit or loss; |
| **"GLA"** | means gross lettable area, being the total area of a building that can be let to a tenant. GLA comprises primary GLA plus supplementary areas which include for example, storerooms, balconies, terraces, patios and signage/advertising areas dedicated for the use by the tenant and exclude basements and parking. Unless otherwise noted, any reference within the report to $m^2$ is based on GLA; |
| **"IFRS"** | means the International Financial Reporting Standards; |
| **"ILAM"** | means ICEA LION Asset Management Limited |
| **"Independent Property Valuers" or "Valuer"** | means the independent property valuers of the I-REIT, as appointed from time to time on a 3-year cycle or in line with the independence rules per the Regulations; |
| **"I-REIT"** | means Income REIT; |
| **"KRA"** | means Kenya Revenue Authority; |
| **"Legal Advisor"** | means the legal advisor to the REIT, being Mboya Wangong'u and Waiyaki Advocates; Hamilton Harrison & Mathews Advocates; |
| **"LLP"** | means Limited Liability Partnership; |
| **"$m^2$" or "sqm"** | means square metres; |
| **"MER"** | means the management expense ratio as defined in the REITs Regulations; |
| **"NAV"** | means net asset value, being the value of all the ILAM Fahari I-REIT's assets after subtracting the value of all of its liabilities as determined in accordance with the consolidated financial statements of ILAM Fahari I-REIT; |
| **"NSE"** | means Nairobi Securities Exchange Limited, approved as a securities exchange under the Act; |
| **"Registrar"** | means the registrar of REIT securities in relation to ILAM Fahari I-REIT, being CDSC Registrars Limited; |
| **OCI** | means Other Comprehensive Income |

## GLOSSARY

| Term or abbreviation | Meaning |
|---|---|
| **P & L** | Profit or Loss |
| **"REIT"** | means Real Estate Investment Trust, an unincorporated common law trust that has been authorised as such by the CMA; |
| **"REIT Manager"** | means STANLIB Kenya; and, after 18 May 2020, ICEA LION Asset Management; |
| **"REITs Regulations"** | means the Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 as may be amended or modified from time to time; |
| **"REIT Trustee" or "Trustee"** | means the Co-operative Bank or Co-op Bank of Kenya Limited; |
| **"SKL"** | means STANLIB Kenya Limited; |
| **"SME's"** | means Small and Medium Enterprises; |
| **"SPV"** | means special purpose vehicle; |
| **"sq.ft."** | means square foot or square feet; |
| **"STANLIB Kenya"** | means STANLIB Kenya Limited, Certificate of Incorporation number C.9522; |
| **"Subsidiary" or "Subsidiaries"** | means a subsidiary or the subsidiaries of the ILAM Fahari I-REIT property fund, being an entity or entities owned more than 50% by the REIT Trustee on behalf of the REIT; |
| **"TAV"** | means total asset value, being the value of all the ILAM Fahari I-REIT assets prior to any adjustments or deduction of liabilities; |
| **"Technical Engineer"** | means one or both of the technical engineers being, Feradon Associates Ltd |
| **"Trust Deed"** | means the trust deed between ICEA LION Asset Management Limited and Co-op Bank establishing the ILAM Fahari I-REIT property fund as an Income Real Estate Investment Trust Scheme, 30 September 2015; |
| **"Unitholder(s)" or "REIT Unitholder(s)" or "Securities holder"** | means any person including the Promoter, who has purchased or otherwise acquired (including through the exchange, or in consideration of any transfer, of Property) and holds any Units and is registered in the Register as evidence that he holds the units; |
| **"VAT"** | means value-added tax as defined in the Value-Added Tax Act, 2013, as amended; |
| **"ZAR"** | means South African Rand. |

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