

ILAM FAHARI I-REIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

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OUR CORPORATE INFORMATION

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<p>COMMERCIAL BANKER</p> <p>The Co-operative Bank of Kenya Limited Co-operative House Haile Selassie Avenue P.O. Box 48231 – 00100 Nairobi, Kenya Tel: +254 703 027 000 Email: customerservice@co-opbank.co.ke; custodial@co-opbank.co.ke</p>	<p>AUDITOR</p> <p>KPMG Kenya 8th Floor, ABC Towers ABC Place, Waiyaki Way P. O. Box 40612 – 00100 Nairobi, Kenya Tel: +254 20 280 6000 Email: info@kpmg.co.ke</p>
<p>TRUSTEE</p> <p>The Co-operative Bank of Kenya Limited Co-operative House Haile Selassie Avenue P.O. Box 48231 – 00100 Nairobi, Kenya Tel: +254 703 027 000 Email: customerservice@co-opbank.co.ke; custodial@co-opbank.co.ke</p>	<p>CUSTODIAN</p> <p>The Co-operative Bank of Kenya Limited Co-operative House Haile Selassie Avenue P.O. Box 48231 – 00100 Nairobi, Kenya Tel: +254 703 027 000 Email: customerservice@co-opbank.co.ke; custodial@co-opbank.co.ke</p>
<p>COMPLIANCE OFFICER – REIT MANAGER</p> <p>Olga Omalla 4th Floor, ICEA LION Centre Chiromo Road P.O. Box 46143 – 00100 GPO Nairobi, Kenya Tel: +254 20 275 0000 Email: olga.omalla@icealion.com</p>	<p>COMPLIANCE OFFICER –TRUSTEE</p> <p>Henry Karanja Co-operative House Haile Selassie Avenue P.O. Box 48231 – 00100 Nairobi, Kenya Tel: +254 20 327 6965 Email: hmkaranja@co-opbank.co.ke</p>

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OUR CORPORATE INFORMATION (Continued)

<p>COMPANY SECRETARY – TRUSTEE</p> <p>Lucy Muthama Co-operative House Haile Selassie Avenue P.O. Box 48231 – 00100 Nairobi, Kenya Tel: +254 20 327 6474 Email: lmuthama@co-opbank.co.ke</p>	<p>TAX ADVISORS</p> <p>Viva Africa Consulting LLP 3rd Floor, Kiganjo House Rose Avenue, Off Denis Pritt Road P.O. Box 75079 – 00200 Nairobi, Kenya Tel: +254 20 246 5567 Email: KThuo@vivaafriCALLP.com</p>
<p>TRANSACTION ADVISER</p> <p>Dyer and Blair Investment Bank Limited 7th Floor, Goodman Tower Off Waiyaki Way, Westlands P.O. Box 45396 – 00100 Nairobi, Kenya Tel: +254 709930000 Email: corporate@dyerandblair.com</p>	<p>REGISTRAR</p> <p>CDSC Registrars Limited 1st Floor, Occidental Plaza Muthithi Road, Westlands P.O. Box 6341 – 00100 Nairobi, Kenya Tel: +254 20 258 8000 Email: registrar@cdscregistrars.com</p>
<p>LEGAL ADVISORS</p> <p>Mboya Wangong’u & Waiyaki Advocates Lex Chambers, Maji Mazuri Road Off James Gichuru Road P.O. Box 74041 – 00200 Lavington, Nairobi Tel: +254 20 216 0312 Email: gmbuya@lexgroupafrica.com</p>	<p>LEGAL ADVISORS</p> <p>Hamilton Harrison & Mathews Advocates 1st Floor, Delta Office Suites, Waiyaki Way, P.O. Box 30333 Nairobi, Kenya Email: Serah.Obwangi@dentons.com</p>
<p>LEGAL ADVISORS</p> <p>Bowmans Coulson Harney 5th Floor, West Wing, ICEA LION Centre, Riverside Park, Chiromo Road P.O. Box 10643 – 00100 Nairobi, Kenya Tel: +254 20 289 9000/ +254 709 966 000 Email: cecil.kuyo@bowmanslaw.com</p>	<p>LEGAL ADVISORS</p> <p>TripleOKLaw Advocates LLP 5th Floor, Block C, ACK Garden House 1st Ngong Avenue, off Bishops Road P.O. Box 43170 – 00100 Nairobi, Kenya Tel: +254 709830100 Email: info@tripleoklaw.com</p>

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OUR CORPORATE INFORMATION (Continued)

<p>PROPERTY MANAGER</p> <p>Knight Frank Kenya Limited Lion Place Waiyaki Way P.O. Box 39773 – 00623 Nairobi, Kenya Tel: +254 20 423 9000 Email: info@ke.knightfrank.com</p>	<p>INDEPENDENT VALUERS</p> <p>Jones Lang LaSalle Kenya Ltd 4th Floor, Sanlam Tower Waiyaki Way, Nairobi Tel: +254 709 324 324 Email: jll.co.za; africa.jll.com</p>
<p>MEP ENGINEER</p> <p>Feradon Associates Ltd Kasuku Drive, Off Bogani Road Karen P.O. Box 7375-00300 Ronald Ngala, Nairobi, Kenya Email: consult@feradon.com</p>	<p>STRUCTURAL ENGINEER</p> <p>Feradon Associates Ltd Kasuku Drive, Off Bogani Road –Karen P.O. Box 7375-00300 Ronald Ngala, Nairobi, Kenya Email: consult@feradon.com</p>

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THE CHAIRMAN'S STATEMENT

DEAR UNITHOLDERS

I am pleased to report on the notable developments of ILAM Fahari I-REIT in 2023, a year which marked a significant milestone in our pursuit for revitalised performance and growth. As has been reported previously, the strategic review conducted by the REIT Manager highlighted the importance of expanding the REIT's asset base to achieve economies of scale, improve asset quality as well as mix, and to ensure long-term value accretion. Unfortunately, maintaining the REIT's listing status had become an obstacle to growth as units traded at a significant discount to Net Asset Value, discouraging both existing and potential investors. After extensive consultation with the stakeholders, the decision was therefore made to undertake an operational restructuring aimed at de-listing the REIT from the Main Investment Market Segment ("MIMS") of the Nairobi Securities Exchange ("NSE"). The restructuring entailed the redemption of units held by non-professional investors in order to facilitate conversion of the REIT from an unrestricted I-REIT to a Restricted I-REIT, still in conformity with the regulatory requirements, and subsequent de-listing.

Following the successful completion of the redemption process, the Extra-Ordinary General Meeting held on 24th November 2023 approved the conversion and de-listing resolutions, paving the way for the restructuring. Subsequently, the CMA approved the delisting of the REIT units from MIMS, which was effected on 12th February 2024. The REIT Manager has since applied to the NSE for admission of the units to the Unquoted Securities Platform ("USP").

Another significant achievement was the successful disposal of Highway House, in line with our strategy to divest non-core assets and optimize the portfolio. We are in the process of disposing one more asset, which should be finalized in 2024.

LOOKING AHEAD

Despite challenges such as rising interest rates, exchange rate volatility, increased debt levels, and geopolitical risks impacting the real estate investment environment, the REIT sector continues to offer significant opportunities. Our immediate focus areas moving forward include the redevelopment of excess land at Greenspan Mall, potential strategic acquisitions, and securing financing for our growth plans.

DISTRIBUTION

In accordance with REITs Regulations, the Board recommends, and the REIT Trustee approves, a distribution of KShs 0.70 per unit, marking an 8% increase from the prior year. This first and final distribution will be paid to Unitholders no later than 30th April 2024. This amounts to a payout ratio of 85%.

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THE CHAIRMAN'S STATEMENT (Continued)

APPRECIATION

As we navigate this transformative phase, I extend my sincere appreciation to my fellow Board members, the Trustee, Regulators, service providers, our Management team and all stakeholders who have played a crucial role during the restructuring process. I also thank our esteemed Unitholders for their ongoing support and continued confidence as we strive to deliver improved performance and sustained growth in line with their expectations.



Andrew Ndegwa
Chairman, ICEA LION Asset Management Limited

Date: 26 March 2024

ILAM FAHARI I-REIT
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REIT MANAGER'S BOARD OF DIRECTORS

1. 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. His association with First Chartered Securities began in 1994, where he assumed the role of Group Planning Manager. Recognizing his strategic acumen, he was appointed to the Board as Executive Director in 2000.

Andrew 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. In addition, he is a trustee of Faraja Cancer Support Trust.

2. EINSTEIN KIHANDA | Executive Director

Appointment date: 18 May 2020

Einstein is the Chief Executive Officer of ICEA LION Asset Management Limited. His academic credentials include a Bachelor of Science Degree in Business Administration (Accounting & Finance Major), and a Master of Science degree in Management and Organizational Development both from the United States International University (USIU). He also holds a Master of Science degree in Finance from the University of Strathclyde in Scotland, U.K.

With over 25 years of experience in investment analysis, research, and fund management, Einstein's career began as a Research Analyst at Equity Stockbrokers in February 1999. He subsequently held key roles, including Head of Portfolio Management Services at ICEA Investment Services, and other positions at Old Mutual Asset Managers, CFC Stanbic Financial Services, and Sanlam Investment Management Kenya. His journey led him back to ICEA LION Asset Management Limited, where he assumed the role of Chief Investment Officer before being promoted to CEO in December 2015.

Einstein also serves as a Director of ICEA LION Asset Management (Uganda), is the immediate former Chairman of the Institute of Certified Investment and Financial Analysts (ICIFA), and a past Chairman of the Fund Managers Association (FMA). He is currently, in the Vice Chairman of the Stakeholders Committee of the FMA.

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REIT MANAGER'S BOARD OF DIRECTORS (Continued)

3. 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. He holds a BSC in Business Administration from USIU and is a Certified Public Accountant and alumnae of IESE Business School.

Patrick 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. He is a Member of the Institute of Certified Public Accountants of Kenya (ICPAK) and a Member of the Overseas Technical Scholarship (AOTS) Japan.

4. PHILIP LOPOKOIYIT | Non-Executive Director

Appointment date: 23 November 2022

Philip is the Chief Executive Officer of ICEA LION General Insurance Company Limited, as well as the Acting CEO of ICEA LION Insurance Holdings Limited. He holds a B. Com Degree (Hons.), Accounting Option from the University of Nairobi and a Master's in Business Administration (MBA) from Warwick Business School, UK. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

With over 21 years of working in various senior management roles in multinational companies, Philip's has a wealth of experience in Finance, Accounting, Risk Management, Internal Controls and Corporate Governance. He previously held other Non-Executive Director positions in different organizations.

Philip is also a Non-Executive Director at NCBA Group and serves on the Board and Committees of other ICEA LION Group and affiliated Companies. In addition, he is the Vice-Chair of the Board of UN Environment Programme's Principles for Sustainable Insurance (PSI) as well as a Leadership Council member of UN Environment Programme Finance Initiative. He is also a Member of the Institute of Certified Public Accountants of Kenya (ICPAK) and the Institute of Chartered Management Accountants.

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REIT MANAGER'S BOARD OF DIRECTORS (Continued)

5. STEPHEN MALLOWAH | Non-executive Director

Appointment date: 18 May 2020

Stephen Mallowah is a distinguished Commercial and Corporate Law partner at the renowned regional law firm, TripleOKLaw Advocates LLP, headquartered in Nairobi with a broad regional presence. As an Advocate of the High Court of Kenya, Stephen holds a Bachelor of Laws (Hons) degree from the University of Zambia, a Master of Laws Degree in Corporate and Commercial Law as a Chevening Scholar from the University of London, a Master of Science Degree in Oriental & African Studies and an Advanced Management Program from IESE Business School. Stephen further enhanced his legal expertise with a Postgraduate Diploma from the Kenya School of Law.

Stephen's professional expertise spans various specialized areas of law. Notably, in Capital Markets and Financial Services, he advised a major commercial bank on establishing a Unit Trust. His involvement in Structured and Project Finance includes advising a developer on a significant 140MW geothermal power generation project. In the realms of Mining, Oil, and Gas, Stephen has provided counsel to large multinationals in the extractives sector, particularly on legislative engagement related to the Mining Act and Petroleum Act. Additionally, he has excelled in Public Policy and Regulatory Compliance, offering guidance to a leading telecommunications company on regulatory and compliance matters surrounding the rollout of advanced digital service offerings. Beyond his legal practice, Stephen has shared his extensive knowledge as a law lecturer at prominent institutions such as Kenyatta University, Catholic University of East Africa, the Kenya School of Law, and the Kenya School of Monetary Studies.

Stephen is also a certified Corporate Governance Trainer with the Centre for Corporate Governance.

6. KAIRO THUO | Non-Executive Director

Appointment date: 18 May 2020

Kairo is a seasoned professional with a dual background in law and accounting. He is a founder partner of Viva Africa Consulting LLP and Viva Africa Consulting Limited. He holds an LLB (Hons) from Strathmore and the University of Nairobi, along with CPA-K and CPA-T qualifications.

Previously, he established and led the Tax Transaction Advisory Group at Deloitte and Touche, serving as the Director of the unit. He specialized in mergers, acquisitions, transaction arrangements, wealth structuring, funds management, and corporate/legal structuring. He has extensive experience in all areas of taxation, covering Kenya, Uganda, Rwanda, Tanzania, and other African countries. He contributed to the establishment of specialized tax service lines in direct and indirect taxation, including customs, international tax, and transfer pricing. He was actively involved in capacity enhancement initiatives for the East Africa Law Society and the Institute of Certified Public Secretaries of Kenya.

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

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REIT MANAGER'S BOARD OF DIRECTORS (Continued)

7. PAUL MUTHAURA | Non-Executive Director

Appointment date: 17 March 2022

Paul is the CEO of the Africa Carbon Markets Initiative (ACMI). He 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 and Systemic Team Coach.

Prior to his current role, he was an independent consultant supporting economically impactful transitions to greater resilience, inclusion and carbon neutrality in developing economies as well as capital markets development in emerging African jurisdictions.

He is an Independent Board member of the International Ethics Standards Board for Accountants; an Independent Board Member of British American Tobacco (BAT) Kenya; a Board Member of ICEA LION Asset Management; 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.

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REIT MANAGEMENT TEAM

1. RAPHAEL MWITO | Chief Executive Officer

Raphael is the Chief Executive Officer of ILAM Fahari I-REIT. He holds a Bachelor of Architecture (B.Arch) from the University of Nairobi and is a Chartered Financial Analyst [CFA Charter holder].

With over 19 years of experience, Raphael has a diverse background in planning and design, real estate investment, development management, project financing, and structuring. Throughout his career, Raphael has been involved in various prestigious projects, taking on roles such as architect, investment manager, and development manager. Some notable projects include the Standard Group HQ, Langata Heights, Mtwapa Heights, Garden City, Nairobi Gate, Holy Family Basilica Parking, Somerset Westview Kilimani, and others. He has led cross-functional teams to successfully deliver these projects and meet Profit & Loss targets. In addition to his project involvement, Raphael has provided valuable expertise in advising on a KShs 10 billion Mixed Use Development in Eastleigh, the repositioning of ILAM Fahari I-REIT, the Musyi Affordable Housing Scheme in Kitui, and a USD 250 million mixed-use scheme in Douala, Cameroon.

Raphael is a registered architect with the Board of Registration of Architects and Quantity Surveyors (Boraqs), a member of the Architectural Association of Kenya, the CFA Society of East Africa and the Institute of Certified Investment and Financial Analysts (ICIFA).

2. RUTH OKAL | Assistant General Manager

Ruth is the Assistant General Manager of ILAM Fahari I-REIT. She holds a Master of Arts degree in Property Management and Valuation, and a Bachelor of Arts degree in Land Economics both from the University of Nairobi. She also holds a Diploma in Valuation & Property Management from the Institution of Surveyors of Kenya. In addition, she has completed Chartered Financial Analyst (CFA) Level 2 and currently pursuing Level 3.

With over 19 years of industry experience, Ruth's expertise spans commercial agency, property management, valuation, market research, feasibility studies, development advisory, data analysis, revenue forecasting, and industry reporting to facilitate informed business decisions. She previously worked at STANLIB Kenya Limited and Knight Frank Kenya Limited. Ruth has also been actively involved in originating, negotiating, and closing numerous property transactions.

Ruth also serves as a Board member of the Valuers Registration Board, Committee member of the REIT Association of Kenya where she chairs the Policy, research and publications sub-committee. She is a full member of The Institution of Surveyors of Kenya (ISK) where she is also an examiner. In addition, she is both a registered valuer and estate agent.

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REIT MANAGEMENT TEAM (Continued)

3. IRENE MALOBA | Finance Manager

Irene is the Finance Manager for ILAM Fahari I-REIT. She holds a Master of Science (MSc) in Finance from the University of Nairobi and a Bachelor's degree in Business Management (Finance and Banking) from Moi University. She is also a Certified Public Accountant of Kenya.

With close to 12 years of experience, Irene's expertise lies in budget forecasting, financial planning, financial reporting and analysis, treasury operations, and banking. She previously served as a Management Accountant at Centum Investment Company Plc. In this capacity, she handled financial reporting and analysis for the Holding Company, as well as Two Rivers Development and its subsidiaries. Prior to Centum, Irene spent over three years at Equity Group Holdings Limited, progressing to the role of overseeing the finance department of Equity Investment Bank.

Irene is a member of the Institute of Certified Public Accountants of Kenya.

4. MAUREEN MUGAMBI | Financial Accountant

Maureen is the Financial Accountant of ILAM Fahari I-REIT. She holds a Bachelor of Commerce degree in Finance from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and an ACCA Advanced Diploma in Accounting and Business.

With over 8 years of experience in the finance sector, Maureen is proficient in financial reporting, cash flow management, budgeting, and treasury management. She previously served as a Financial Accountant at Centum Investment Company Plc. In this capacity, she played a key role in financial reporting, budgeting, and analysis for subsidiary companies.

5. OLGA OMALLA | Risk and Compliance Officer.

Olga is the Risk and Compliance Manager of ILAM Fahari I-REIT. She 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, a Post Graduate Diploma in Financial Services Law and a Masters in in Financial Services Law all from the University of London. Olga is also an advocate of the High Court of Kenya, a Certified Professional Mediator and a Certified Retirement Benefits Scheme Trustee under Kenyan Law.

With over 12 years of experience in legal and compliance matters, Olga plays a crucial role at ILAM Fahari I-REIT. In her capacity as the Legal and Compliance Officer, she is responsible for regulatory compliance, drafting and reviewing legal documents, ensuring adherence to client mandates, and managing all legal correspondence for the company. Olga's extensive legal expertise, combined with her compliance knowledge, makes her a key contributor to the risk management and regulatory compliance framework. She previously worked at a law firm in Kenya under the Commercial and Corporate Division.

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REIT MANAGEMENT TEAM (Continued)

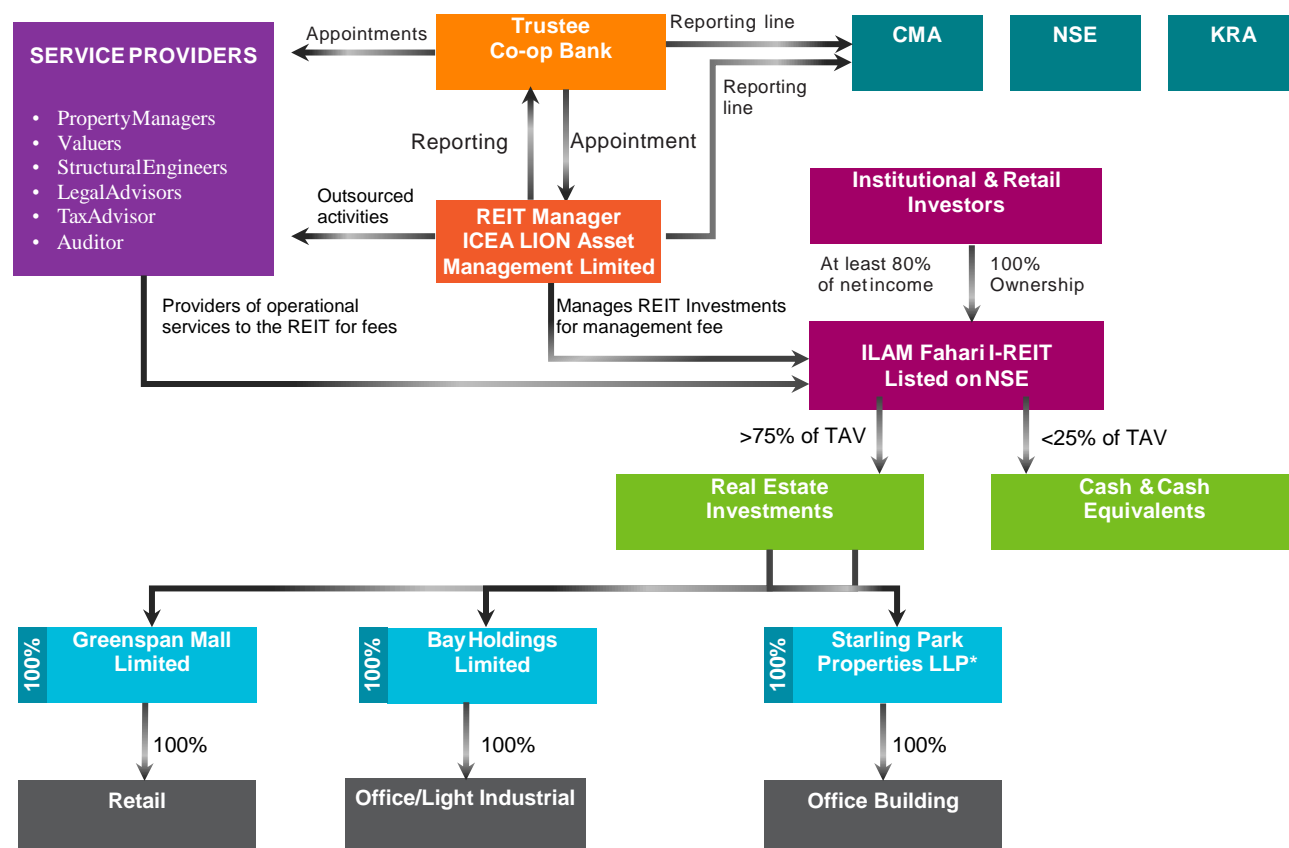
6. BARBRA ROTICH | Property Investment Analyst

Barbra is the Property Investment Analyst for ILAM Fahari I-REIT. She holds a Bachelor of Science degree in Financial Engineering from Jomo Kenyatta University of Agriculture and Technology, complemented by certifications as a Financial Modelling and Valuation Analyst from the Corporate Finance Institute. Additionally, Barbra has acquired certifications in Data Science, advanced Excel, and Tax Administration.

Barbra's professional journey began through internships and analyst trainee roles at notable organizations, including the Ministry of Treasury and Planning and ILAM Fahari I-REIT. During these experiences, she gained practical skills in financial analysis, modelling, forecasting, and valuation. Barbra is proficient in various analytical tools such as Excel, Power BI, Python, and R. Her proactive approach to innovation and process improvement is evident in her keen interest in seeking opportunities to enhance operational efficiency.

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THE 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.

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REPORT OF THE REIT MANAGER

The REIT Manager submits its report together with the audited financials for the year ended 31 December 2023, 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 licensed under the REIT's Regulations. The REIT was authorized 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") as at the date of the report.

In line with the application to convert the REIT from an unrestricted into a restricted I-REIT and to delist the REIT which was approved by the Capital Markets Authority on 25th August 2023, the REIT Manager applied for delisting from the Main Investment Market Segment ("MIMS") of the NSE. This followed the successful conclusion of the Redemption Offer and the passing of the delisting resolution at the Extra-Ordinary General Meeting ("EGM") held on 24th November 2023. The REIT was subsequently delisted from the NSE on 12th February 2024, and the REIT Manager has applied for admission of the units to the Unquoted Securities Platform ("USP") of the NSE to provide liquidity to the remaining Unitholders.

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 REIT's 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.

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REPORT OF THE REIT MANAGER (Continued)

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 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
Philip Lopokoityit	Non- Executive Director	Appointed 23 November 2022

ACQUISITIONS

Acquisitions during the period

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

Disposals during the period

The REIT successfully completed the disposal of a property known as Highway House owned by Signature Assets Limited. The property had been vacant since April 2018 and the management with the approval of the Trustee considered selling the property in line with the REIT's strategic initiatives.

Entity	Transaction date	Sale consideration	Property last valuation
		KShs	KShs
Signature Assets Limited	3 October 2023	45,100,000	30,000,000

The Property was acquired at KShs. 108, 717,670 on 30 June 2016. The GLA is approximately 710 m² (7,638 sq.ft.), with ample covered parking bays. It was independently valued last in December 2022 by Jones Lang LaSalle Kenya (Pty) Limited. At the time of valuation, the property was earmarked for sale and the Valuer used comparable transaction method and offer prices to arrive at the value. It was later sold to the highest bidder following a competitive bid process.

Real estate assets contracted for purchase or sale

At the time of report date, no real estate assets are contracted for purchase or sale. The property known as Bay Holdings has been earmarked for disposal in 2024 and hence is treated as an 'investment property – current assets as at 31 December 2023. Refer to Note 14 to the financial statements.

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REPORT OF THE REIT MANAGER (Continued)

ACQUISITIONS (Continued)

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	2023	2022	Change
Net loss for the year (KShs)	(297,642)	(28,363,591)	99%
Rental and related income (KShs)	322,420,562	354,291,682	-9%
Other income	52,143,196	31,021,470	68%
Property expenses	97,180,778	131,271,761	26%
Fund operating expenses	128,636,334	112,092,872	-15%
Fair value adjustment	(149,044,288)	(170,312,110)	12%
Realised loss from disposal of property	(85,500,000)	-	>100%
Distributable earnings (KShs)	63,246,646	141,948,519	-55%
Market value of property portfolio (KShs)	2,939,700,000	3,118,600,000	-6%
Net asset value per unit (KShs)	18.27	18.92	-3%
Distribution per unit (KShs)	0.70	0.65	8%

Net loss decreased to KShs. 0.3 million from KShs. 28.4 million in the prior year. This was mainly due to a reduction in the fair value loss on investment property at Greenspan Mall Limited. The Mall recorded a loss of KShs. 2.1 million compared to KShs 30.5 million in 2022. This was, however, offset by an increase in fair value loss on Starling Park Properties of KShs 136.5 million (2022: KShs 125.8 million) on account of lease expiry. The process of finding a replacement tenant is on-going.

Distributable earnings decreased by 55% to KShs. 63.2 million compared to KShs. 141.9 million in the comparative period. This was mainly due to crystallization of the fair value loss booked on Highway House over time upon disposal of the property.

Rental and related income decreased by 9% due to lease expiry at Starling Park Properties. The property recorded five months of rental income compared to 12 months in 2022.

Property expenses reduced significantly by 26% mainly due to lower repairs and maintenance works undertaken across the three properties. In addition, the vacancy at Starling Park Properties reduced the expenses further.

Fund operating expenses increased by 15% on account of restructuring costs incurred in the period under review.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

DISTRIBUTION

The REIT Manager has recommended, and the Trustee has approved, a first and final distribution of KShs. 126,680,610 in respect of the year ended 31 December 2023 (2022: KShs. 117,631,995). The distribution was declared out of distributable earnings and met the requirements of a minimum distribution in terms of the REIT's 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	2023	2022	2021	2020	2019
Distributable earnings (KShs)	63,246,646	141,948,519	101,973,271	134,420,916	144,034,195
Minimum distribution per Trust Deed and Regulations (80%)	50,597,317	113,558,815	81,578,617	107,536,733	115,227,356
Distribution (KShs)	126,680,610	117,631,995	90,486,150	108,583,380	135,729,225
Distribution as a % of distributable earnings (%)	>100	83	89	81	94
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)	0.35	0.78	0.56	0.74	0.80
Distribution per unit (KShs)	0.70	0.65	0.50	0.60	0.75

The proposal of the distribution by the REIT Manager occurred after the end of the reporting period ended 31 December 2023 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 2024.

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 was reduced by transaction costs of KShs. 139,905,255 on issue of units.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

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.

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

In 2023, the focus of the year for the REIT was on operational restructuring aligned with strategic initiatives aimed at fostering growth. The REIT Manager successfully executed the redemption of 38,764,488 units from non-professional investors. This move was intended to pave way for the conversion of the REIT from a non-restricted I-REIT to a restricted I-REIT, within the REIT regulatory requirements. An Extra-Ordinary General Meeting held on 24th November 2023 saw the passing of a delisting resolution, facilitating the conversion process. The restructuring is expected to yield several benefits for Unitholders, including increased flexibility for pursuing a wider range of investment opportunities, such as direct real estate acquisitions and developments. This restructuring also aims to enhance the REIT's ability to align its investment strategy with the long-term needs of its Unitholders.

Additionally, as part of the strategic plan, the REIT Manager successfully disposed of Highway House, a property owned by Signature Assets Limited. The decision to sell was in line with the REIT's strategy of divesting non-core assets and optimizing the portfolio. The property, vacant since April 2018, was divested to streamline the portfolio and enhance overall efficiency.

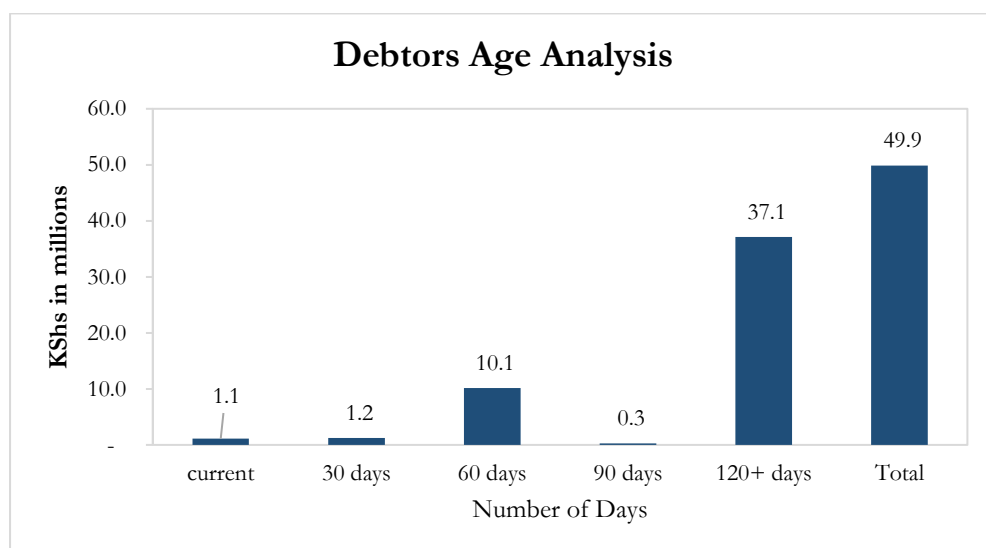
Beyond these specific actions, the REIT Manager continued to fulfill strategic and operational responsibilities in managing the property portfolio and cash reserves. This ongoing effort is geared towards ensuring the effective long-term management of the REIT, aiming to deliver attractive returns for investors and ensuring compliance with regulatory and legislative requirements. The comprehensive approach to operational restructuring and portfolio management reflects the REIT's commitment to maximizing value and aligning its activities with the evolving needs of its stakeholders.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

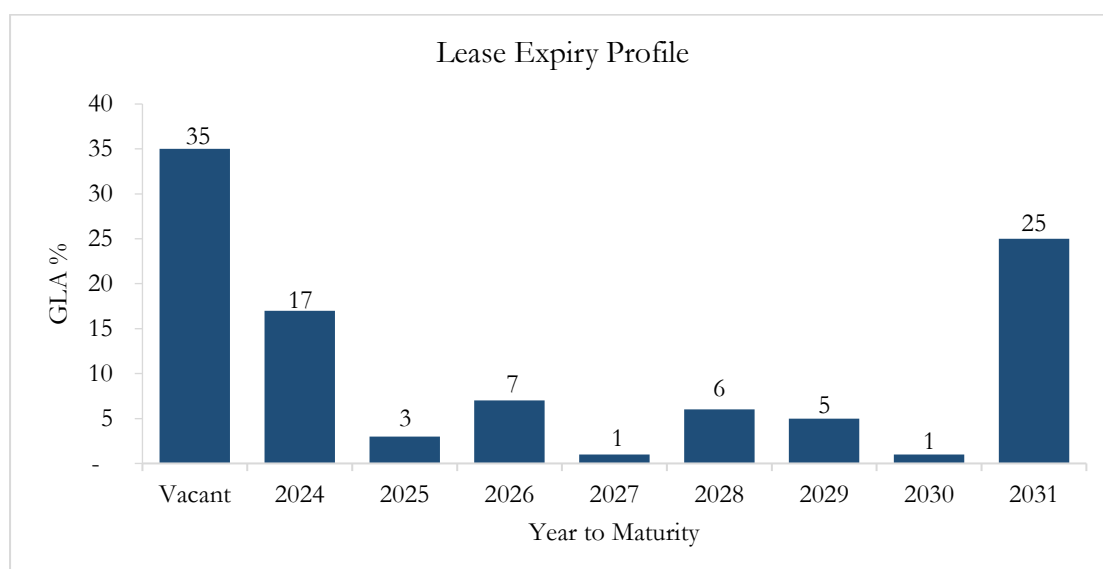
KEY PERFORMANCE INDICATORS

Debtors Age Analysis



Tenant arrears stood at KShs. 49.9 million (excluding excess service charge receivable) at the end of 2023 (2022: KShs. 56.4 million). The decrease in the arrears was due to an increase in collections resulting from the stringent debt collection policies and procedures employed by the REIT Manager to ensure delinquent tenants are managed proactively to minimize impairment risk. The management has also raised a provision of KShs 40.0 million towards tenants who have mostly been distressed.

Lease Expiry Profile by Gross Lettable Area (GLA)



The lease expiry profile continues to be well spread with 25% of the GLA expiring from eight years after reporting date. The 25% relate to the anchor tenant at Greenspan Mall as well as other tenants who renewed their leases within the year under review. The spike in vacancy is as a result of Lease expiry at Starling Parking Properties. The REIT Manager is in process of finding a replacement tenant.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

KEY PERFORMANCE INDICATORS (Continued)

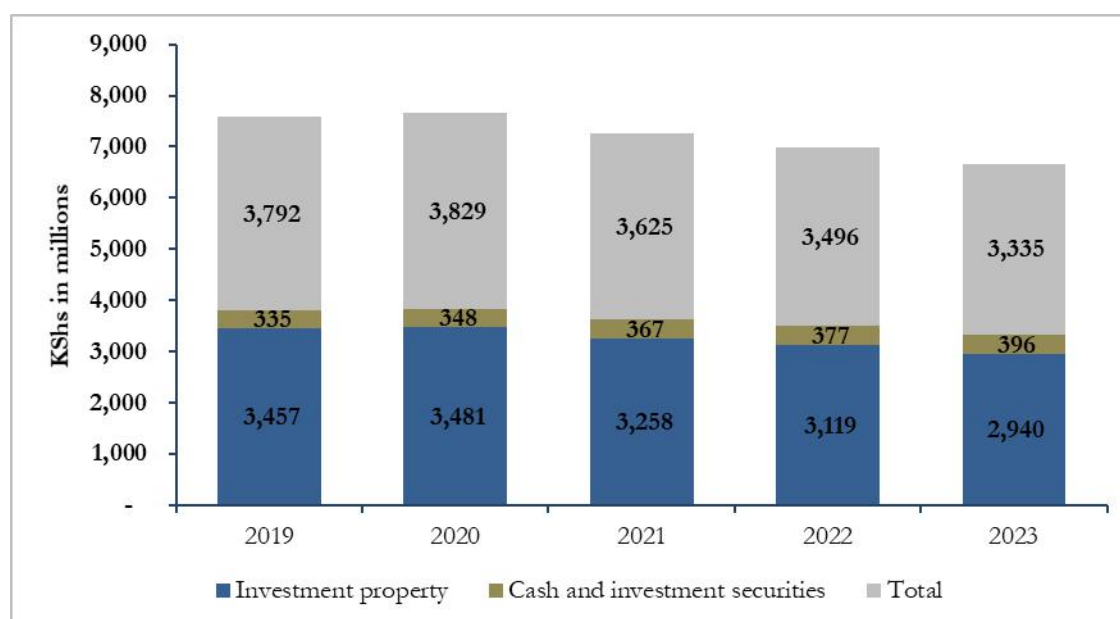
Vacancies

The total portfolio vacancy rate is at 35% while the portfolio target is at 5%.

Property	GLA	Vacant GLA	Vacancy %
Greenspan Mall	155,477	38,153	25%
67 Gitanga Place*	41,312	41,312	100%
Bay Holdings	33,265	-	-
Total weighted average	230,054	79,465	35%

The 100% vacancy at 67 Gitanga Place is as a result of lease expiry during the year under review. The building was single tenanted hence the impact on the portfolio. The REIT Manager has opted for multitenancy as they seek to lease out the space to avoid concentration risk.

ASSETS UNDER MANAGEMENT (AUM)



In 2023 the AUM decreased by 4.6% to KShs. 3.34 billion (2022: KShs. 3.50 billion) mainly due to fair value loss recorded by Starling Park Properties and Bay Holdings Limited. Besides devaluation, the disposal of Highway House that had a book value of KShs 30.0 million by end of 2022, reduced the property portfolio by KShs. 30.0 million while increasing the cash and investment securities by KShs. 40.1 million.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

CASH & NEAR CASH ASSETS (KShs)

Cash instruments	2023	2022
Cash and cash equivalents	218,790,974	89,908,591
Investment securities *	176,760,959	287,049,120
Total	395,551,933	376,957,711

*Investment securities refers to fixed deposits that have a maturity greater than 90 days at inception are classified as investment securities.

To maximize returns on interest income, funds from property subsidiaries are transferred to the REIT's investment account daily and subsequently invested in cash instruments with competitive rates.

Breakdown of Cash and cash equivalent

Cash and cash equivalent	2023	2022
Fixed deposit*	43,426,849	-
Call deposit	162,172,740	73,700,178
Cash in bank	13,191,385	16,208,413
Total	218,790,974	89,908,591

*Fixed deposit that have a maturity of less than 90 days at inception.

The surge in call deposit as well as fixed deposit of <90 days is attributed to market uncertainty caused by the upward trend in interest rates compared to the previous year. The REIT Manager is currently investing more in short term securities as they monitor the interest rate changes.

NET ASSET VALUE

Movement in Net Asset Value (KShs)	2023	2022
Total asset value	3,469,390,660	3,615,564,220
Net asset value	3,306,424,969	3,424,354,606
Number of units in issue	180,972,300	180,972,300
Net asset value per unit	18.27	18.92

The decrease in total assets and net asset value is mainly attributable to the revaluation loss of KShs. 149.0 million. This was offset by a net operating profit for the period under review less the impact of the distribution paid during the year.

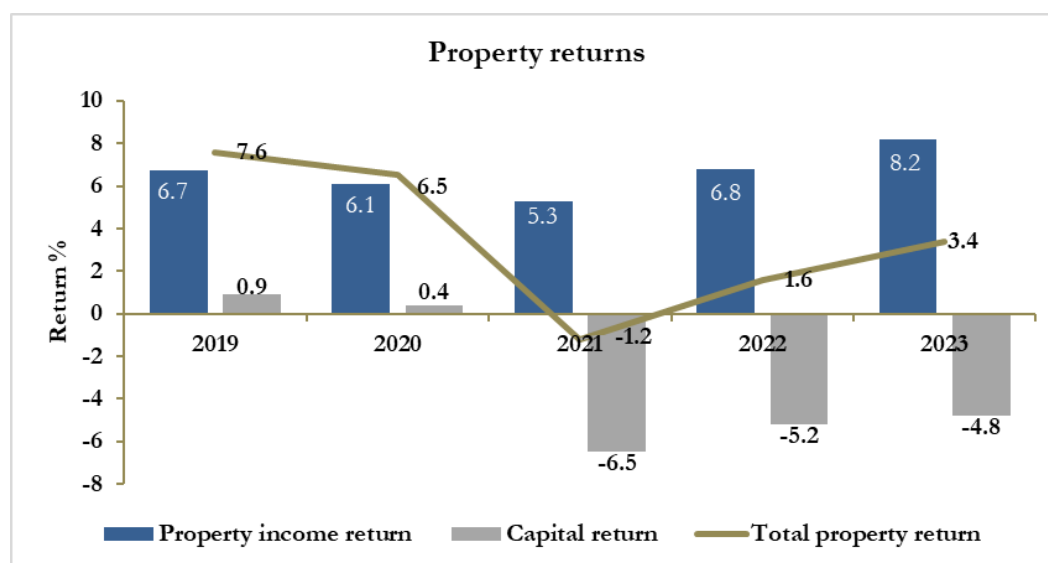
ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

NET ASSET VALUE PRIOR AND POST DISTRIBUTION OF EARNINGS

As at 31 December (KShs)	2023	2022	2021	2020	2019
Net asset value prior to distribution	3,306,424,969	3,424,354,606	3,543,204,347	3,775,738,737	3,763,442,849
Net asset value post distribution	3,179,744,359	3,306,722,611	3,452,718,197	3,667,155,357	3,627,713,624
Net asset value per unit prior to distribution	18.27	18.92	19.58	20.86	20.80
Net asset value per unit post distribution	17.57	18.27	19.08	20.26	20.05
Dividend yield based on the value of the unit as at 31 December	11.1%	10.0%	8.0%	10.6%	8.0%

FUND RETURNS



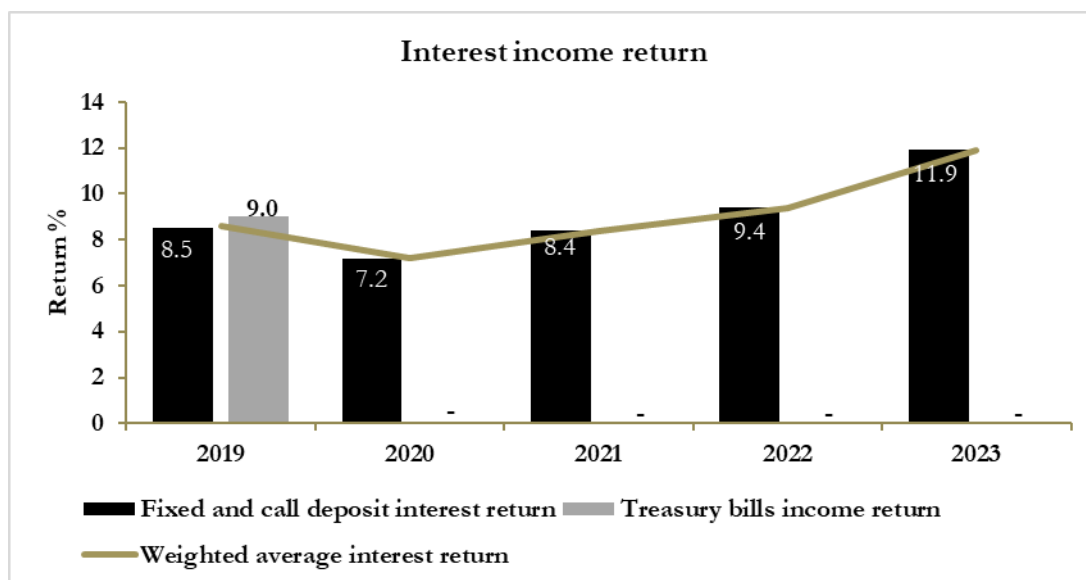
An independent valuer assesses the property's value at the end of the financial year. The income return for the year under review rose by 1.4%, attributed to decreased operational expenses related to the property. Likewise, the negative capital returns decreased by 0.4%, mainly due to the stable valuation of Greenspan Mall. Overall, total property returns experienced a 1.8% increase.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

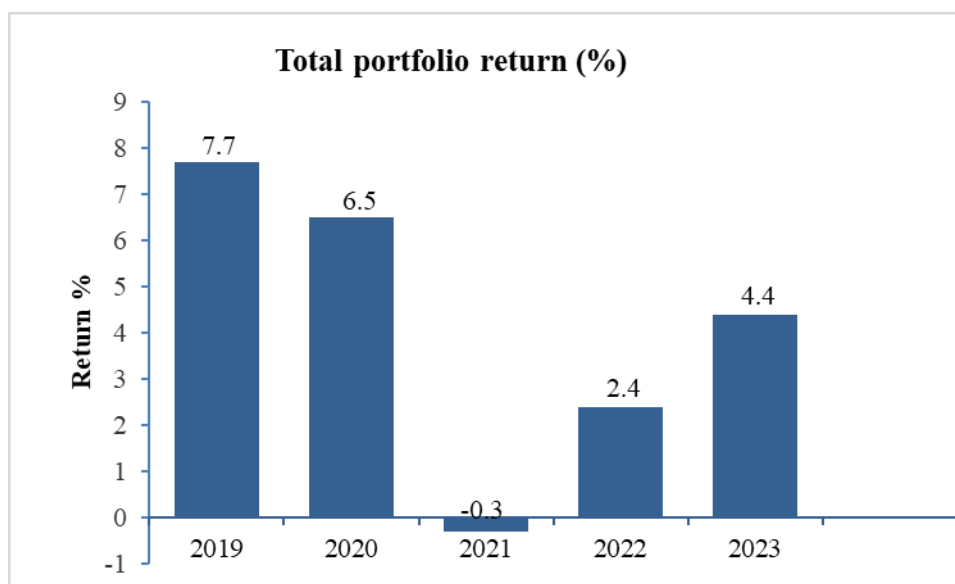
FUND RETURNS (Continued)

Investment income return



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 2023, respectively (2022: 89% and 11%).



ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

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

Sources of distribution (KShs)	2023	2022	2021	2020	2019
Net rental/dividend income from wholly owned property companies	225,239,784	223,019,921	183,808,700	211,258,848	230,724,761
Fund interest and other income	38,777,696	31,021,470	25,664,245	22,412,016	24,611,177
Realized gain on disposal (FY2023)	13,365,500	-	-	-	-
	277,382,980	254,041,391	209,472,945	233,670,864	255,335,938
Less:					
Fund operating expenses	(128,636,334)	(112,092,872)	(107,499,674)	(99,249,948)	(111,301,743)
Realized loss on disposal (prior years devaluation)	(85,500,000)	-	-	-	-
Total potential distributable income from current earnings income	63,246,646	141,948,519	101,973,271	134,420,916	144,034,195
Distribution from prior years retained earnings	63,433,964	-	-	-	-
Distribution	126,680,610	117,631,995	90,486,150	108,583,380	135,729,225
Distribution as a % and in compliance with Regulation 72	>100%	83%	89%	81%	94%

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	2023	2022	2021	2020	2019
MER (%)	3.9	3.3	3.0	2.6	3.0

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

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.

As at the reporting date, the units were registered for trading with ISIN Code KE5000003656, were freely transferable on the NSE, and had no restriction on transfer. This will change with the approved delisting expected to be completed in 2024 and subsequent admission of the units on the Unquoted Securities Platform.

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

As at the reporting date, ILAM Fahari I-REIT was a closed-ended fund. Its units could only be traded at the NSE. The 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 2023, none of the ILAM Fahari I-REIT issued units were subjected to any lock-in conditions. The free float as at 31 December 2023 thus amounted to 100% (31 December 2022: 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 2023 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 2023, 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	2023	2022
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. Some of the units were redeemed by the Trustee during the year as outlined in the next table.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

DETAILED ANALYSIS OF UNITHOLDINGS (Continued)

Units redeemed	2023	2022
Units redeemed at the beginning	-	-
Units redeemed during the year	38,764,488	-
Units redeemed at year end	38,764,488	-

The Trustee redeemed the above units from non-professional investor at KShs 11 per unit during the one-month offer period that ended on 6th of October 2023. The payment for the redeemed shares was made between October 2023 and December 2023. The redemption was funded by the REIT Manager hence the number of units in issue does not change.

Breakdown of REIT Securities Holdings by Class

The distribution of the REIT's unitholders as at 31 December 2023 was as follows:

Range	Units	Units %	Unit holders	Unit holders %
Less than 100	471	-	29	0.7
100-1,000	1,459,358	0.8	1,941	47.7
1,001-10,000	6,620,073	3.6	1,783	43.7
10,001-100,000	7,943,100	4.4	259	6.3
100,001-less than 5% of no. of units in issue	55,663,455	30.8	62	1.5
Holdings above 5% of no. of units in issue	109,285,843	60.4	6	0.1
Total	180,972,300	100.0	4080	100.0

REIT Security Holdings by Country

The REIT security holdings by country as at 31 December 2023 were as follows:

Country	Units	Units %
Kenya	172,131,033	95.1
South Africa	7,963,700	4.4
Uganda	311,000	0.2
Others	566,567	0.3
Total	180,972,300	100.0

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

DETAILED ANALYSIS OF UNITHOLDINGS (Continued)

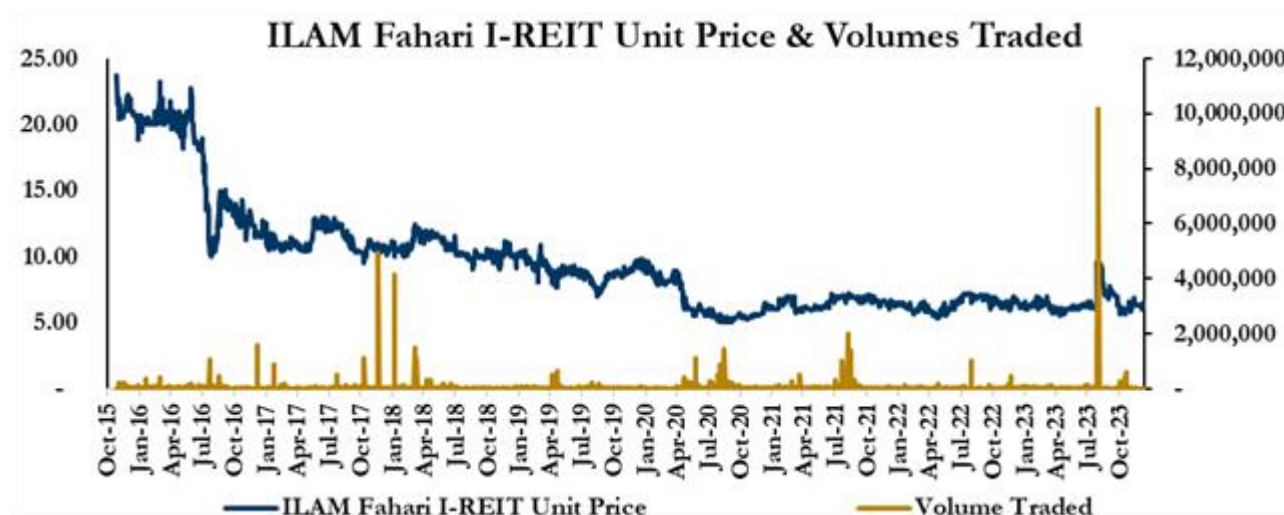
REIT Investor Holdings

Top 10 ILAM Fahari I-REIT unitholders as at 31 December 2023

Holder Names	Units	% Holding
Standard Chartered Nominees Non Resd A/C Ke11752	23,900,000	13.21
ICEA LION Life Assurance Company Ltd-Share Holders	23,577,223	13.03
ICEA ASSET Management Limited A/C 2000	19,624,320	10.84
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
Stanbic Nominees Ltd A/C R1018467-C	6,805,158	3.76
One Globe Holdings Limited	5,200,000	2.87
Standard Chartered Nominees A/C 9265	3,211,100	1.77
Total	132,202,801	73.06

CLOSING PRICE HISTORY

The REIT daily closing price from inception to 31 December 2023 was as follows:



Source: NSE Daily Statistics

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

CLOSING PRICE HISTORY (Continued)

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

	2023	2022
Closing price per unit (KShs)	6.30	6.52

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 LLP	Tax advisor	Tax consultancy services fees
TripleOKLaw Advocates LLP	Legal advisor	Legal advisory services

(b) Connected party transactions – fees paid

Transaction (KShs)	2023	2022
Asset management fees – ICEA LION Asset Management	70,000,000	70,000,000
Trustee fees – Co-op Bank	20,710,524	21,547,604
Custodial fees – Co-op Bank	1,656,842	1,723,808
Other administrative fees – Co-op Bank	944,740	970,098
Valuation fees – Jones Lang LaSalle Kenya Ltd	2,106,600	1,933,334
Property management fees – Knight Frank Kenya Limited	15,970,080	13,597,128
Tax consultancy services fee paid to Viva Africa Consulting	635,698	686,215
Legal fees paid to TripleOKLaw Advocates	2,560,900	-
Total	114,585,384	110,458,187

(c) Connected party balances

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

Bank account name (KShs)	2023	2022
Investment account – Fixed deposits	126,506,301	-
REIT Investment account	5,776,025	7,309,443
Rent collection account – Greenspan Mall	3,211,660	2,709,565
Service charge account – Greenspan Mall	2,142,787	407,957
Service charge account – Starling Park Properties	137,805	4,954,187
Rent collection account – Bay Holdings	830,940	793,513
Rent collection account – Signature Assets	1,082,168	23,747
Total	139,687,686	16,198,412

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

CONNECTED PARTY TRANSACTIONS (continued)

(d) Units held by connected parties to the REIT

Promoter Holdings as at 31 December 2023	Units	Holding %
ICEA LION Life Assurance Company Ltd-Share Holders	23,577,223	13.03
ICEA ASSET Management Limited A/C 2000	19,624,320	10.84
Total	43,201,543	23.87

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 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)	2023	2022
Asset management fees – ICEA LION Asset Management Limited	70,000,000	70,000,000
Trustee fees – Co-op Bank	20,710,524	21,547,604
Custodial fees – Co-op Bank	1,656,842	1,723,808
Other administrative fees – Co-op Bank	944,740	970,098
Valuation fees – Jones Lang LaSalle Kenya Ltd	2,106,600	1,933,334
Property management fees – Knight Frank Kenya Limited	15,970,080	13,597,128
Total	111,388,786	109,771,972

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 2023, the property has an unexpired leasehold term of 83 years.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

PROPERTIES DETAILED REPORT (Continued)

GREENSPAN MALL (Continued)

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 healthcare and small non-branded fashion and apparel component. The anchor tenant occupies 37% of the GLA. A snap shot of the mall is displayed below:



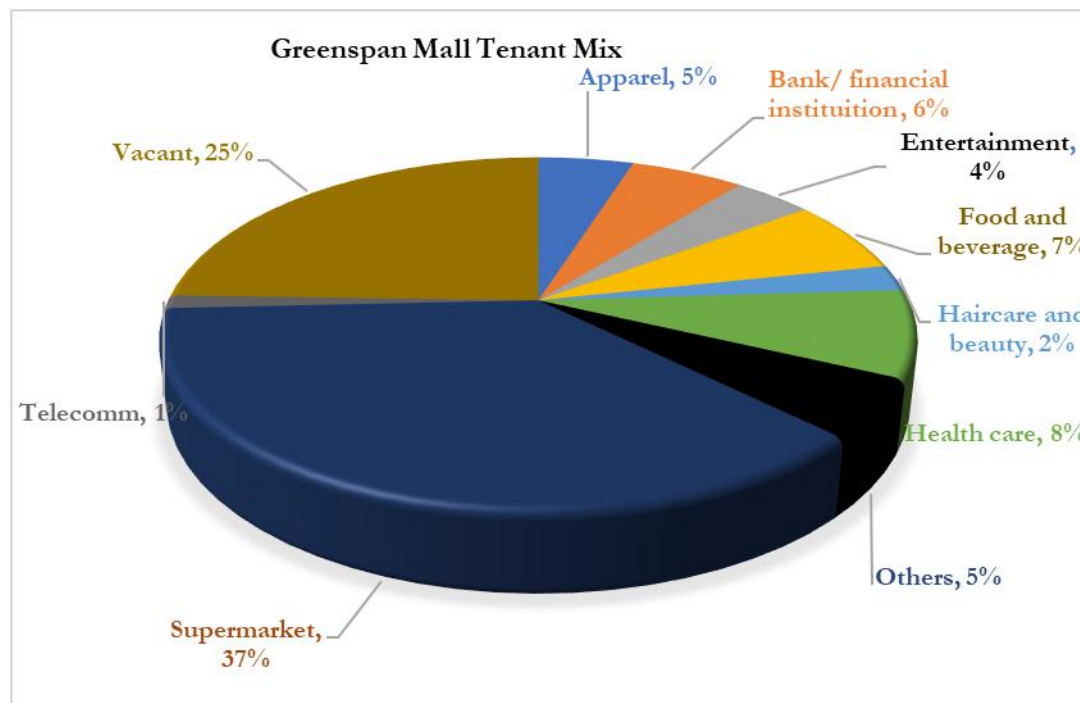
Greenspan Mall has a well-smoothed lease expiry profile making it possible to manage the tenant mix to optimize the rental income stream. The tenant mix is summarized below.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

PROPERTIES DETAILED REPORT (Continued)

GREENSPAN MALL (Continued)



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 NAIROBI/BLOCK71/81 measuring 0.2691 hectares for a term of 99 years from 1 January 1949. The property has an unexpired leasehold term of 25 years as at 31 December 2023.



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. The property is earmarked for sale in line with the new REIT Strategy.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE REIT MANAGER (Continued)

PROPERTIES DETAILED REPORT (Continued)

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 93 years, 4 months as at 31 December 2023.

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 was single tenanted but currently vacant after the lease expired in May 2023. The REIT Manager is in the process of finding a replacement tenant.

SUMMARY OF RECENT VALUATIONS

The investment properties were revalued by Jones Lang LaSalle Kenya Ltd as at 31 December 2023 and 31 December 2022. The market values at revaluation are summarized below:

Transaction	2023	2022
Greenspan Mall	2,200,600,000	2,202,600,000
Starling Park Properties LLP	579,100,000	715,600,000
Bay Holdings	160,000,000	170,400,000
Signature Assets*	-	30,000,000
Total	2,939,700,000	3,118,600,000

*The Signature Assets' property was disposed of during the year under review.

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REPORT OF THE REIT MANAGER (Continued)

PROPERTIES DETAILED REPORT (Continued)

SUMMARY OF RECENT VALUATIONS (Continued)

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 2023, the retail sector in Kenya continued to see a mix of expansions and closures by major retailers. Carrefour opened 3 new branches in Nairobi and Mombasa, reaching 22 stores nationwide while Naivas opened 9 new branches to reach 101 stores countrywide. The opening of its latest store marks a significant achievement in the retailer's ongoing expansion plan dubbed 'Road to 100', underway for several months. Quickmart opened 4 stores, reaching 59 at the end of the year.

Regrettably, there were a few closures during the year. Tuskys Supermarket closed its Central Business District (CBD) branch bringing down the number of its operating outlets countrywide to 5. The closure of South Africa's Builders Warehouse at Waterfront Karen has been attributed to the challenging economic conditions and the limited adoption of the Do-It-Yourself (DIY) culture in Kenya. The departure of Builders Warehouse however marked the introduction of the more budget-friendly China Square – a retail chain offering diverse consumer goods such as electronics, furniture, DIY hardware, kitchenware, and stationery. Notably, this marks the establishment of China Square's second outlet in Kenya.

Overall, the implementation of the Finance Act 2023 has increased taxes and levies, reducing taxpayers' real earnings due to high inflation and decreased purchasing power. This has intensified competition among retailers fighting for customers by locating outlets in residential areas rather than malls. Despite the various challenges, including decline in disposable incomes and surge in e-commerce, the retail sector showed resilience in 2023, with rental yields improving to 8.3% from 7.9% in 2022 due to higher occupancy and asking rents, partly driven by expansion from domestic and foreign retailers like Naivas and Carrefour. However, the changing consumer patterns has compelled the retailers to recalibrate their customer reach mechanisms. E-commerce maintains popularity as retailers seek an optimal online and physical presence. The outlook remains neutral with ongoing developments as developers take a conservative approach with fewer speculative developments witnessed in recent times.

Office

The office sector in Kenya displayed improvement in 2023 despite economic headwinds, with asking rents in Nairobi rising 7.1% to KShs103 per sq.ft., partly driven by new Grade A supply fetching premium rents in dollars. According to Knight Frank H2 2024 report 2023, despite the prevailing challenging economic conditions, office occupancy rates experienced a notable 5% increase from 71.5% in the first half of 2023 to 76.5% in the second half of the year. This increase was largely attributed to limited new supply of grade A office space.

The flexible and serviced office sub-sector has seen an increasing demand whereby International Workplace Group has committed USD 850,000 for a new workspace in GTC Westlands.

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REPORT OF THE REIT MANAGER (Continued)

PROPERTY MARKET UPDATE (Continued)

Office (Continued)

However, in recent times, demand has waned mainly due to the challenging economic conditions that were precipitated by the Covid-19 pandemic. Demand is expected to focus on green-certified offices as Kenya leads on climate change, supporting a neutral outlook. Westlands, Gigiri, and Parklands are growing nodes which continue to dominate the office sector and present opportunities with above-average returns. Confidence is slowly returning with new developments in the pipeline.

Industrial

The industrial real estate sector in Kenya had an exceptionally strong 2023, with robust demand from manufacturing, e-commerce, and logistics companies pushing vacancy rates to record lows of 2.3% in Nairobi and 3.1% in Mombasa by the end of the year. With tight supply, rental rates surged over the year, with prime industrial rents in Nairobi up 5.2% to \$6.1 per sq.ft. The supply-demand imbalance led to a surge in new construction starts, though most spaces will not be commissioned until 2024. Investor interest remained high, with \$210 million in transactions in Q4 at compressed cap rates of 8.2%.

The notable expansion was mainly due to international businesses localizing production due to currency depreciation. ALP West Logistics Park was selected by Printcare Packaging for expansion given robust demand. Sameer Africa started building a new Ksh260 million warehouse facility along Mombasa Road. Going into 2024, positive fundamentals around manufacturing and logistics should continue driving tenant demand, though rising rates and costs could dampen growth. Overall, Kenya's industrial sector remains very strong despite emerging risks of a correction from the rapid 2023 expansion.

Related to the industrial market is the data centre market, that is at its nascent stages in Kenya, a situation that is gradually changing. Over the review period, IXAfrica announced a major deal with Tilisi to establish a data centre campus on 11 acres, IXAfrica Data Centre Limited is a leading developer and operator of hyperscale ready data centres in East Africa, and Tilisi Developments plc ("Tilisi"), a premier real estate developer.

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REPORT OF THE REIT MANAGER (Continued)

REGULATORY LIMITS

REGULATION	REGULATORY LIMIT	ACTUAL AS AT 31 DECEMBER 2023	COMPLIED (✓) / NOT COMPLIED (X) / N/A
Minimum number of REIT securities holders	7	4,080	✓
Minimum Free Float	25%	100%	✓
Minimum Promoter investment and retention*	25% of NAV	23.87%	N/A
Eligible Investments	75% real estate	88.1% real estate	✓
Minimum income generation	70% of rental income	86%	✓
Maximum gearing	35% of total asset value	0%	✓
Minimum distributions	80%	85%**	✓

***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 2024.

PROSPECT STATEMENT AND PIPELINE

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

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REPORT OF THE REIT MANAGER (Continued)

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 %	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
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	N/A	N/A	N/A	N/A
All direct eligible real estate:						
a) Freehold	None	None	None	None	None	None
b) Leasehold	None	None	None	None	None	None
All indirect eligible real estate:						
a) Freehold held through investee companies or investee trusts	N/A	N/A	N/A	N/A	N/A	N/A
b) Leasehold held through investee companies or investee trusts	None	None	None	Refer to financials	Refer to financials	31.12.2023
Income producing real estate Regulation 65 (6) Minimum of 75% of TAV within 2 years of authorization.	N/A	75%	None	88%	89%	31.12.2023

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I-REIT Eligible Investments (Assets) Regulation 65	Regulation and maximum limit %	Regulation and minimum limit %	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
Land and cost of construction Regulation 70 Maximum 15% TAV	None	None	None	None	None	None
Cash, Deposits, bonds and money market instruments Regulation 65 (11) Maximum 5% to single issuer, institution, or members of group	5%	0%	5%	0%	0%	31.12.2023
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	N/A	N/A	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%	10%	0%	0%	None
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	N/A	N/A	N/A	N/A	N/A	N/A

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I-REIT Eligible Investments (Assets) Regulation 65	Regulation and maximum limit %	Regulation and minimum limit %	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
developed or constructed Regulation 12						
Other assets (eligible) include description	None	None	None	None	None	None
Other assets (not eligible) include description	None	None	None	None	None	None

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REPORT OF THE REIT MANAGER (Continued)

MEETINGS OF REIT SECURITIES HOLDERS

The sixth and seventh Annual General Meetings (“AGM”) for REIT securities holders were held on 24th April 2023 via electronic means. The meetings were quorate with 31.9% and 32.7% of the unitholders (by number of units held in the REIT) present in person or by proxy.

The purpose of the meetings was to:

- ❖ Receive the Annual Report and the Audited Annual Financial Statements for the year ended 31 December 2021 and 31 December 2022;
- ❖ Ratify the first and final distribution for the year ended 31 December 2021, of KShs. 90,486,150 (50 cents per unit in issue) as recommended by the REIT Manager and approved by the REIT Trustee and paid to Unitholders by April 2022;
- ❖ Note the first and final distribution for the year ended 31 December 2022, of KShs. 117,631,995 (65 cents per unit in issue) as recommended by the REIT Manager and approved by the REIT Trustee and paid to Unitholders by April 2023;
- ❖ Note that KPMG continue as Auditors of the REIT;
- ❖ Note that the REIT Manager together with the REIT Trustee had issued a cautionary statement regarding a strategic review undertaken which, if approved and implemented, may involve an operational restructuring of the REIT.
- ❖ Note the REIT Manager, with the approval of the Trustee, is in the process of disposing non-core assets within the property portfolio.

In addition, an Extra-Ordinary General Meeting was held on 24th November 2023 via electronic means. The meeting was quorate with 93.2% of the unitholders (by number of units held in the REIT) present in person or by proxy.

The purpose of the meetings was to:

- ❖ Approve the proposed conversion of the ILAM Fahari I-REIT from an Unrestricted to a Restricted REIT.
- ❖ Approve the delisting of the REIT from Nairobi Securities Exchange (NSE)
- ❖ Approve the quotation of the REIT units on the Unquoted Securities Platform managed by NSE

The above resolutions were passed by the general meetings

Other than the above AGMS and EGM, no other meetings of the REIT unitholders took place during the period under review.

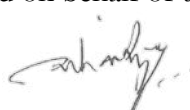
The next AGM is expected to take place on 25th April 2024. The AGM notice and proxy forms will be published closer to the time.

APPROVAL OF THE REIT MANAGER’S REPORT

The REIT Manager’s report was approved and signed on behalf of the REIT Manager by:



Andrew Ndegwa
**Chairman, ICEA LION Asset Management
Asset Limited**
Date: 26 March 2024



Einstein Kihanda
**Chief Executive Officer, ICEA LION
Management Limited**

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CORPORATE GOVERNANCE

STATEMENT OF COMPLIANCE

ICEA LION Asset Management Limited, 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 Board of the REIT Manager places high emphasis on regulatory compliance in all aspects of its business operations and adopts a zero-tolerance approach to regulatory breaches. The Board 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.

In pursuit of this objective, the Board has put in place formal structures to support corporate governance. These structures are regularly reviewed in order to strengthen and improve them. 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. In addition, third-party auditors are engaged to perform audits on the financials and internal controls annually to ensure compliance with applicable laws and regulations.

BOARD SIZE, COMPOSITION AND APPOINTMENTS

The Board comprises of seven members made up of a non-executive Chairman, five 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. These Directors have a good mix of skills, experience and competencies in relevant fields of expertise. Further, these Directors meet the "fit and proper persons' criteria" in compliance with the "Guidelines of Suitability of Persons" as required by the Capital Markets (Corporate Governance) (Market Intermediaries) Regulations.

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 Board is committed to a clear division of responsibilities between the Chairman and the CEO. The Chairman is responsible for managing the Board and providing strategic leadership to the REIT Manager. The CEO directs the implementation of Board decisions and instructions. The CEO steers the REIT Management business to realise its strategic objectives in conjunction with the REIT Management team.

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CORPORATE GOVERNANCE (Continued)

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.

BOARD EVALUATION

Regulations calling for board evaluation represent the minimum requirements, and this, carried out by an external consultant, coordinated by the Chairman and Company Secretary, goes beyond a check-box compliance exercise. The Board's evaluation contributes significantly to performance improvements on four levels that is: at the Organisational, Board, Individual Board Member and Stakeholder levels. The Board evaluations have been carried out for a number of years with significant improvements made to this end.

BOARD DIVERSITY

The Board of the REIT Manager recognises the benefits of a diverse skills base across the Company and is supportive of initiatives that promote diversity at all levels. Despite making some strides in this regard, the organization still seek to increase female representation at Board level. This continues to be a target as the Board is eager to achieve in the near future. The directors' biographies appear on page 8 to 11 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 2023, the Committee's composition constituted of four non-executive directors, and the Chairman who is 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:

- Ensuring that the systems and controls, procedures and policies of the REIT Manager as well as risk management activities are properly established, monitored and reported on.
- Monitoring and providing effective supervision of the management's financial reporting process to ensure accurate and timely financial reporting.
- Review of the external auditor's scope and monitor their performance;
- Monitoring compliance of the laws and regulations governing the REIT;
- Ensure that the other Board members are made aware of matters which may significantly impact the financial conditions or affairs of the REIT.

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CORPORATE GOVERNANCE (Continued)

INVESTMENT COMMITTEE

The ILAM Fahari I-REIT Investment Committee (“IFIR-IC”) is constituted by the Board of the REIT Manager and structured as its sub-committee. The reporting at the Board is by the IFIR-IC Chairman. The Committee is constituted of three non-executive directors besides the Chairman.

The mandate of the 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	15 th March 2023	14 th June 2023	12 th September 2023	23 rd November 2023
Andrew Ndegwa	Non-Executive Chairman	√	√	√	√
Einstein Kihanda	Executive Director	√	√	√	√
Patrick Mugambi	Non- Executive Director	√	√	√	√
Philip Lopokoityit	Non- Executive Director	√	x	√	√
Stephen Mallowah	Non- Executive Director	√	√	√	√
Kairo Thuo	Non- Executive Director	√	√	√	√
Paul Muthaura	Non- Executive Director	√	√	x	√

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RISK MANAGEMENT

The REIT's 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.

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. The 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 Accounting Standards. As currently permitted by IFRS Accounting Standards, investment properties held to earn rentals and for capital appreciation are stated at annual fair 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 the REIT's underlying asset values and operating performance by applying a careful investment evaluation process. This ensures that the properties the 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.

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RISK MANAGEMENT (Continued)

KEY RISKS (continued)

Risks associated with the ILAM Fahari I-REIT structure

Income risk

Rental income earned from, and the value of, 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 the 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 REIT's Regulations and the Governing Authority. 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.

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RISK MANAGEMENT (Continued)

Risks associated with the ILAM Fahari I-REIT structure (continued)

Tax risk

The REIT and its wholly owned subsidiaries are exempt from income tax in line with section 20(1)(c) and 20(1)(d) of the Income Tax Act. Any 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. Among the latest changes is the exemption of stamp duty when acquiring assets for the REITs, which expired in December 2022. The CMA together with the REITs' industry players are lobbying for reinstatement of the same.

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. The REIT Manager also participates actively in industry forums alongside industry bodies such as the REITs Association of Kenya, in lobbying for the required tax reforms affecting REITs in Kenya.

Risks arising from acquisition of special purpose vehicles

The 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.

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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 2023 evaluation was conducted by the group's ESG specialist following the acquisition of the former independent specialist Environmental Business Strategies Kenya Limited ("EBS").

ENVIRONMENTAL DATA

	UNIT	2019	2020	2021	2022	2023
Energy Consumption*	KShs	22,893,763	20,997,105	20,438,375	19,841,112	27,367,396
Water Consumption*	m³	60,812	46,133	44,361	45,923	38,887
Waste Generation	Tonnes					
Greenspan Mall		614	422	130	472	457.5
67 Gitanga Place		204	96	138	-	-

*Greenspan Mall only

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SUSTAINABILITY REPORT (Continued)

REFLECTING ON 2023

Greenspan Mall

E&S area	Details
Major repairs and maintenance works	<p>In 2023, the management completed extensive improvements to the firefighting system in the Mall which included the overhaul of the firefighting system at and upgrading of the same to NFPA standards, providing a dedicated tank and pump for the fire system, and establishing fire stops on each floor, fire hydrants and bridging inlets around the perimeter, upgrading the Nairobi City County Water supply and testing and repairing the fire line.</p> <p>Other repairs and maintenance works undertaken include: remedial works on expansion joints and re-organization of Mechanical, electrical and plumbing services in the building, 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.</p> <p>Management also initiated the solarization of Greenspan mall, the project is expected to be completed in Q1 of 2024. The grid-tied solar plant is expected to replace approximately 27% of daytime energy needs for the building</p>
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.
Safety audits	In 2023, 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
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.

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SUSTAINABILITY REPORT (Continued)

STATUS ON 2023 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.	√	Done
	Water proofing in the basement and address water logging.	x	Almost complete
	Emergency Drill		
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 2024

Property	E&S area
Greenspan Mall	Complete solarization
	Consider water recycling – grey water reuse
	Implement recommendations made in the risk assessment
	An updated risk register
	Revamping the gardens.
	Repainting of the interior.
67 Gitanga Place	Emergency drill
	Risk register
Bay Holdings	Investment property – current assets

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REPORT OF THE TRUSTEE

The Trustee's report is prepared in accordance with Regulation 101 (3) and the Fifth Schedule of the REIT's 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. 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 financial 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, with the Trustee's consent, is undertaking a strategic review of the I-REIT, which involved a restructuring of the I-REIT. In line with the restructuring, it commenced the conversion of the ILAM Fahari Income Real Estate Investment Trust (the "ILAM Fahari I-REIT" or "IFIR") from an Unrestricted into a Restricted I-REIT and the redemption of up to 38,764,488 Units from Non-Professional Investors. The matter was communicated to the Authority.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE TRUSTEE (Continued)

Requirement under the Fifth Schedule	Trustee's report
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.	<p>The Trustee, pursuant to the Capital Market Authority's approval, convened and held the 6th and 7th REIT AGMs of the securities holders on 24th April 2023 via electronic means where unit holders duly attended and considered the agenda items as follows;</p> <ul style="list-style-type: none"> • Considered and approved the Consolidated Annual Report and the Audited Annual Financial Statements for the financial year ended 31st December 2021 and 31st December 2022. • Unitholders noted and ratified the first and final distribution for the year ended 31st December 2021, of KShs.90,486,150 (50 cents per unit in issue) as recommended by the REIT Manager, approved by the Trustee and paid to unit holders in April 2022. • Unitholders noted and ratified the first and final distribution for the year ended 31st December 2022, of KShs.117,631,995 (65 cents per unit in issue) as recommended by the REIT Manager, approved by the Trustee and paid to unit holders in April 2023. • Unitholders noted the continuation of KPMG as the REIT auditors having expressed their interest to continue as auditors. The REIT Manager and REIT Trustee had no objection of them continuing as the REIT auditors.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE TRUSTEE (Continued)

Requirement under the Fifth Schedule	Trustee's report
f) Meetings of REIT securities holders convened by the trustee, resolutions put and the outcome of voting.	<ul style="list-style-type: none"> • Unitholders noted the REIT Manager together with the REIT Trustee had issued a cautionary statement regarding a strategic review undertaken which, if approved and implemented, may involve an operational restructuring of the REIT. The strategy was approved by unitholders. • Unitholders noted that in line with the strategic initiative, the REIT Manager, with the approval of the Trustee, is in the process of disposing non-core assets within the property portfolio. <p>The Trustee also convened an Extra Ordinary General Meeting on 24th November 2023 at 10.00am held virtually to approve the below resolutions:</p> <ul style="list-style-type: none"> • The proposed conversion of the ILAM Fahari I-REIT from an Unrestricted to a Restricted REIT • The delisting of the REIT from Nairobi Securities Exchange (NSE). • The quotation of the REIT units on the Unquoted Securities Platform managed by NSE.

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.

The Trustee convened the 6th AGM of the unit holders on 24th April 2023 at 10am via electronic means. Attendees to the meeting (as noted at the commencement of the meeting) were 27 unitholders both in person and in proxy representing 59,508,866 units representing 32.88% of units in issue. Resolutions put to the unitholders were as above and were voted for unanimously.

The Trustee also convened the 7th AGM of the unit holders on 24th April 2023 at 1pm via electronic means. Attendees to the meeting (as noted at the commencement of the meeting) were 142 unitholders both in person and in proxy representing 59,182,966 units representing 32.7% of units in issue. Resolutions put to the unitholders were as above and were voted for unanimously.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE TRUSTEE (Continued)

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 (Continued)**

The Trustee convened an Extra Ordinary General Meeting on 24th November 2023 at 10.00am held virtually to approve the proposed conversion of the ILAM Fahari I-REIT from an Unrestricted to a Restricted REIT, to approve the delisting of the REIT from Nairobi Securities Exchange (NSE) and to approve the quotation of the REIT units on the Unquoted Securities Platform managed by NSE. The voting was done, and all resolutions put forward for determination were passed at 92.95% of the votes. There were 1,689 attendees representing 157,585,946 units and votes cast in favour were 140 unitholders representing 147,176,563 units.

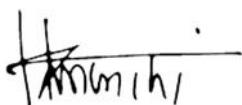
3. **Trustee's opinion on whether the REIT Manager has managed the scheme in accordance with the provisions of the scheme documents, the Act and REITs Regulations.**

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 ongoing local economic challenges occasioned by the depreciating KShs against the USD, increased taxation and high interest rates, the REIT business continued to experience challenges with vacancy increasing to the highest level since inception. As a result, the REIT's overall performance was impacted as highlighted in this report under the Report of the REIT Manager section.

Signed by:



The Compliance Officer
The REIT Trustee
The Co-operative Bank of Kenya Limited

Date: 26 March 2024

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

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 2023:

1. In line with the regulatory requirements, the audited annual financial statements for the REIT for the year ended 31st December 2022, 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. The half year unaudited financial statements were submitted to the Capital Markets Authority and Nairobi Securities Exchange by 30th July 2023 as prescribed in law.
5. The Annual General Meeting for the year ended 31 December 2022 was held on 24th April 2023.
6. The dividend payment was done on 27th April 2023 within the prescribed timeline. However, there was a delay in payment for unit holders receiving their dividends via cheque occasioned by the closure of business operations in Kenya by the main printing vendor. All Unitholders received their cheques by 30th June 2023 as soon as the delay was resolved.
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 period 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 6 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

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

COMPLIANCE REPORT (Continued)

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 period under review:- Continued

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 withdrawn 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 and the matter would be mentioned on 22nd February 2023 for further update.

The REIT Manager subsequently undertook a cost benefit analysis and determined that due to the costly nature of recovering the costs with little chance of success, it was prudent to forego the same and as such the case was marked as closed on 22nd February 2023.

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 Tusksys via Insolvency Cause No. E018 of 2020. Tusksys 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 Tusksys 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 court issued an interim liquidation order on 31st May 2023 and appointed Kolluri V.S. Kamasastri as the provisional liquidator of Tusker Mattresses Limited. Mr. Kamasastri declined appointment and the parties reached a mutual consent for the appointment of Mr. Owen Koimburi which consent was adopted by the court on 17th August 2023. The REIT has subsequently filed formal proof of the amounts owed.

At a creditors meeting held on 20th November 2023, the liquidator confirmed that the assets he had collected so far had depreciated in value over time and the last statements of account he had received were from 2019. The liquidator proposed, and the creditors present agreed that a forensic audit would be carried out to determine the value of available assets.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

COMPLIANCE REPORT (Continued)

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 period under review:- Continued

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

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 to Kes 2,365,605.53. 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 8th July 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 in the month of July. The landlord has since repossessed the premises and let out to a new tenant. The case was marked as closed.

iv. **In the matter of an arbitration pursuant to the Water Supply Agreement, Greenspan Investment Limited vs Greenspan Mall Limited**

The plaintiff GIL 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. The trustee appointed the firm of Coulson Harney LLP (Bowmans) to represent the REIT in the arbitration.

The REIT Manager discovered a potential conflict of interest between the arbitrator and Bowmans subsequent to the appointment and has requested the arbitrator to recuse himself from the proceedings. We await feedback from the arbitrator on this request.

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

COMPLIANCE REPORT (Continued)

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 period under review:-
Continued

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

- 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.

The matter was heard before the arbitrator Mr. Justus Muniyithya and on 4th December 2023, he made the following award;

- a) To dismiss, the claimant's claim in its entirety;
- b) That each party shall bear its own legal costs including an equal share of the Kes 3,477,680 being the cost of the Arbitral Tribunal.

- vi. **Signature Assets Limited vs James Miroga & Mobimex Tours and Safaris K Limited**

Signature Assets Limited filed, under a Certificate of Urgency, for an order of removal of a container placed in front of the property by the respondents partially blocking the entrance and windows of the building.

A hearing date is to be set for the full hearing of the application.

Signed by:



Olga Omalla
Compliance Officer:
ICEA LION Asset Management Limited

Date: 26 March 2024

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

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 66 to 109 which comprise the consolidated statement of financial position as at 31 December 2023, 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 material 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 Accounting 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 judgements and estimates, in conformity with IFRS Accounting 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 26 March 2024 and were signed on their behalf by:-



Andrew Ndegwa
Chairman, ICEA LION Asset Management
Asset Limited



Einstein Kihanda
Chief Executive Officer, ICEA LION
Management Limited

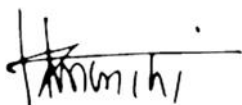
Date: 26 March 2024

ILAM FAHARI I-REIT
2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

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 2023, 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 2023 and of the consolidated profit or loss for the year then ended.

Certified on behalf of The Co-operative Bank of Kenya Limited on 26 March 2024 by:-



Henry Karanja
Trustee Compliance Officer:
The Co-operative Bank of Kenya Limited

Date: 26 March 2024



KPMG Kenya
Certified Public Accountants
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Nairobi, Kenya

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Website www.kpmg.com/estafrica

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 66 to 109 which comprise the consolidated statement of financial position as at 31 December 2023, 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 material accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the REIT as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting 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.

**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 audit
<p>Valuation of investment property <i>(See Note 3(c)(i), Note 4(a) and Note 11 to the financial statements)</i></p> <p>Valuation of investment properties is considered a key audit matter because:</p> <p>The REIT owns three investment properties which represent 80% of its total assets on the consolidated statement of financial position as at 31 December 2023. These investment properties are stated at their fair values based on independent external valuations.</p> <p>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 valuation includes discounted cash flow models that uses a number of inputs from internal sources due to lack of relevant and reliable observable inputs. The key inputs, assumptions and judgments used in the valuation of the investment property include the following:</p> <ol style="list-style-type: none"> Determination of the appropriate discount rate to be used to discount future cash flows (rental income and related costs). Forecast of future income from the properties based on existing rental contract and expected annual rental income increments. Estimate of terminal yield rate applied to expected cash flows in the long run. 	<p>Our audit procedures in this area included:</p> <ol style="list-style-type: none"> Obtaining 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 implementation and operating effectiveness of controls over management review of assumptions used in valuation of investment property. Evaluating the appropriateness of the valuation methodologies used by assessing the alternative valuation approaches applicable and the requirements of IFRS 13 <i>Fair Value Measurement</i>. Using our valuation specialists, we evaluated the reasonableness of the inputs used in the discounted cash flow model. This included: <ul style="list-style-type: none"> Assessing the accuracy of the projected rental income and projected expenses (related costs) used in the valuation model by agreeing projected income to supporting lease contracts and projected expenses to historical expenditure patterns based on prior year actual costs and the projected inflationary adjustments to costs. Assessing the appropriateness of the use of the 5 years holding period by comparing to market/industry trends. We challenged the appropriateness of the discount rate and terminal yield rates used in the valuation by comparing the discount rate to market rates and terminal yield to available industry data, taking into consideration comparability and market factors. 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 <i>Fair Value Measurements</i>.



**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

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 2023* 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.

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.

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 responsibilities for the consolidated financial statements

The REIT Manager is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS Accounting 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 skepticism throughout the audit. We also:



**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)

- 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 or business activities within the 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.

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.



**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)

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 Maurice Gachuhi, practising certificate number - P/2699.

For and on behalf of:

**KPMG Kenya
Certified Public Accountants
PO Box 40612-00100
Nairobi, Kenya**

Date: 26 March 2024

ILAM FAHARI I-REIT

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023**

	Note	2023 KShs	2022 KShs
Revenue		316,630,698	336,820,221
Rental and related income	5	322,420,562	354,291,682
Straight-lining of lease income	12	(5,789,864)	(17,471,461)
Other income		52,143,196	31,021,470
Interest income	6	38,777,696	31,021,470
Realised gain on disposal of property	7	13,365,500	-
Operating expenses		(225,817,112)	(243,364,633)
Property expenses	8	(97,180,778)	(131,271,761)
Fund operating expenses	9	(128,636,334)	(112,092,872)
Decrease in fair value of investment property		(143,254,424)	(152,840,649)
Fair value adjustment to investment property	11	(149,044,288)	(170,312,110)
Straight-lining of lease income	12	5,789,864	17,471,461
Loss for the year		(297,642)	(28,363,591)
Other comprehensive income		-	-
Total comprehensive income attributable to unitholders for the year		(297,642)	(28,363,591)
Basic earnings per unit (KShs)	10	(0.00)	(0.16)
Headline earnings per unit (KShs)	10	0.79	0.69

The notes set out on pages 70 to 109 form an integral part of these consolidated financial statements.

ILAM FAHARI I-REIT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

	Note	2023 KShs	2022 KShs
ASSETS			
Non-current assets			
Investment properties	11	2,779,700,000	2,918,200,000
Fair value of investment property for accounting purposes		2,739,041,169	2,871,751,305
Straight-line lease accrual	12	40,658,831	46,448,695
Property and equipment	13	50,252,190	34,620,979
		2,829,952,190	2,952,820,979
Current assets			
Investment property	14	160,000,000	200,400,000
Term deposits	15	176,760,959	287,049,120
Trade and other receivables	16	83,886,537	85,385,530
Cash and cash equivalents	17	218,790,974	89,908,591
		639,438,470	662,743,241
TOTAL ASSETS		3,469,390,660	3,615,564,220
EQUITY AND LIABILITIES			
Capital and reserves (Page 68)			
Trust capital	18	3,479,540,745	3,479,540,745
Fair value reserve	19	(319,363,195)	(255,818,907)
Retained earnings		146,247,419	200,632,768
		3,306,424,969	3,424,354,606
Current liabilities			
Trade and other payables	20	162,965,691	191,209,614
TOTAL EQUITY AND LIABILITIES		3,469,390,660	3,615,564,220

The consolidated financial statements set out on pages 66 to 109 were approved and authorised for issue by the REIT Manager and by the Trustee on 26 March 2024 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 70 to 109 form an integral part of these consolidated financial statements.

ILAM FAHARI I-REIT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Trust capital KShs	Fair value reserve KShs	Retained earnings KShs	Total KShs
2023				
Balance at 1 January 2023	3,479,540,745	(255,818,907)	200,632,768	3,424,354,606
Total comprehensive income				
Loss for the year	-	-	(297,642)	(297,642)
Transfer to non-distributable reserve (Note 19)	-	(149,044,288)	149,044,288	-
Transfer to distributable reserve	-	85,500,000	(85,500,000)	-
Transactions with owners of equity				
Distribution to unitholders (Note 18)	-	-	(117,631,995)	(117,631,995)
Balance at 31 December 2023	<u>3,479,540,745</u>	<u>(319,363,195)</u>	<u>146,247,419</u>	<u>3,306,424,969</u>
	Trust capital KShs	Fair value reserve KShs	Retained earnings KShs	Total KShs
2022				
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 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	<u>3,479,540,745</u>	<u>(255,818,907)</u>	<u>200,632,768</u>	<u>3,424,354,606</u>

The notes set out on pages 70 to 109 form an integral part of these consolidated financial statements.

ILAM FAHARI I-REIT

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 KShs	2022 KShs
Cash flows from operating activities			
Cash generated from operations	21	110,707,743	153,939,334
Net cash inflow from operating activities		110,707,743	153,939,334
Cash flows from investing activities			
Proceeds from sale of investment property	7	43,365,500	
Additions to investment property	11	(144,288)	(30,912,110)
Additions to property and equipment	13	(17,702,738)	(22,563,955)
Increase/(decrease) in term deposits		110,288,161	(40,362,688)
Net cash generated from/(used in) investing activities		135,806,635	(93,838,753)
Cash flows from financing activities			
Distribution paid	18	(117,631,995)	(90,486,150)
Net cash outflow from financing activities		(117,631,995)	(90,486,150)
Net movement in cash and cash equivalents		128,882,383	(30,385,569)
Cash and cash equivalents at beginning of year		89,908,591	120,294,160
Cash and cash equivalents at end of year	17	218,790,974	89,908,591

The notes set out on pages 70 to 109 form an integral part of these consolidated financial statements.

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEGMENT INFORMATION

Basis for Segmentation

The REIT has four primary business divisions which are its reportable operating segments. The segments are reported in a manner consistent with the internal reporting provided by the REIT Manager. The following summary describes the operations of each reportable segment.

Reportable Segment	Operations
Retail	Offers retail outlets for letting
Office	Offers office space for letting
Industrial	Offers warehouse space for letting
Financial assets	Consist of deposits invested at the fund level

**SEGMENTED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023**

	Retail KShs	Office and light industrial KShs	Fund KShs	Total KShs
Revenue	254,964,424	61,666,274	-	316,630,698
Rental and related income	190,893,880	63,284,791	-	254,178,671
Recoveries	63,077,891	5,164,000	-	68,241,891
Straight-lining of lease income	992,653	(6,782,517)	-	(5,789,864)
Other income	-	13,559,596	38,583,600	52,143,196
Interest income	-	194,096	38,583,600	38,777,696
Realized gain on disposal	-	13,365,500	-	13,365,500
Operating expenses	(94,869,502)	(2,311,276)	(128,636,334)	(225,817,112)
Property admin expenses (excluding impairment loss)	(96,913,499)	(2,311,276)	-	(99,224,775)
Impairment loss	2,043,997	-	-	2,043,997
Fund operating expenses	-	-	(128,636,334)	(128,636,334)
Decrease in fair value of investment property	(3,136,941)	(140,117,483)	-	(143,254,424)
Fair value adjustment to investment property	(2,144,288)	(146,900,000)	-	(149,044,288)
Straight-lining of lease income	(992,653)	6,782,517	-	5,789,864
Net profit/(loss) for the year	156,957,981	(67,202,889)	(90,052,734)	(297,642)

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEGMENT INFORMATION (CONTINUED)

**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)
Increase/(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)

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEGMENT INFORMATION (CONTINUED)

SEGMENTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

	Retail KShs	Office and light industrial KShs	Fund KShs	Total KShs
ASSETS				
Non-current assets	2,250,391,812	579,510,732	49,646	2,829,952,190
Investment properties	2,200,600,000	579,100,000	-	2,779,700,000
Property and equipment	49,791,812	410,732	49,646	50,252,190
Current assets	75,556,918	167,311,622	396,569,930	639,438,470
Investment property	-	160,000,000	-	160,000,000
Investment securities	-	-	176,760,959	176,760,959
Trade and other receivables	70,192,471	5,260,709	8,433,357	83,886,537
Cash and cash equivalents	5,364,447	2,050,913	211,375,614	218,790,974
TOTAL ASSETS	2,325,948,730	746,822,354	396,619,576	3,469,390,660
EQUITY AND LIABILITIES				
Capital and reserves	100,540,201	(395,709,336)	3,601,594,104	3,306,424,969
Trust capital	-	-	3,479,540,745	3,479,540,745
Retained earnings	97,503,396	(73,309,336)	122,053,359	146,247,419
Fair value reserve	3,036,805	(322,400,000)	-	(319,363,195)
Current liabilities				
Trade and other payables	111,835,022	31,818,787	19,311,882	162,965,691
TOTAL EQUITY AND LIABILITIES	212,375,223	(363,890,549)	3,620,905,986	3,469,390,660

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEGMENT INFORMATION (CONTINUED)

SEGMENTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Retail KShs	Office and light industrial KShs	Fund KShs	Total KShs
ASSETS				
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	-	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	375,716,322	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

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)**

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 as at the date of the report. 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 2023 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 International Financial Reporting Standards as issued by International Accounting Standards Board (IFRS Accounting 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 material 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) which is also the REIT’s functional currency.

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

2. BASIS OF PREPARATION (Continued)

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards 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 consolidated 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 material accounting policies

A number of other new standards were effective from 1 January 2023 but they do not have a material effect on the REIT's consolidated financial statements.

Standard	Effective for periods beginning on or after
IFRS 17 Insurance Contracts, including amendments to initial application of IFRS 17 and IFRS 9 comparative information	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

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. MATERIAL 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

The subsidiaries 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(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 – 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 OCI. This election is made on an investment-by-investment basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets - continued

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.

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement – continued

Financial assets — Assessment whether contractual cash flows are solely payments of principal and interest (continued)

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 and 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 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.

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement – continued

Financial assets – Subsequent measurement and gains and losses - continued

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.
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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(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 income approach. The income approach comprises the discounted cash flow method or a net income capitalisation method. Refer to Note 4(a) to the financial statements for key judgements used in the valuations. Any gains or losses are included in profit or loss.

Unrealized gains on fair value of investment property are transferred from retained earnings to a non-distributable reserve. Likewise, unrealized losses on fair value 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 is 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 is recognised in profit or loss.

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(c) Tangible assets (continued)

(i) Investment property – continued

When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

(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 and water Booster equipment	– 10% on straight-line basis
Borehole infrastructure and firefighting equipment	– 4% on a straight-line basis
Firefighting infrastructure	– 3.3% on a straight-line basis
Office equipment	– 10% to 25% on a straight-line basis; and 12.5% on a reducing balance 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

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(d) Impairment of assets (continued)

(i) *Non-derivative financial assets – continued*

Financial instruments and contract assets - continued

- 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 30 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(d) Impairment of assets (continued)

(i) *Non-derivative financial assets – continued*

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(d) Impairment of assets (continued)

(ii) Non-financial assets - continued

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(j) Taxation – continued

Tax exemption – continued

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(m) Foreign currency – continued

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:

- (i) Retail – comprising retail outlets;
- (ii) Office – comprising office buildings and office parking;
- (iii) Industrial – industrial buildings such as warehouses and factories;
- (iv) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3. MATERIAL ACCOUNTING POLICIES (Continued)

(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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)**

3. MATERIAL ACCOUNTING POLICIES (Continued)

(p) New standards and interpretations

New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2023

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2023, 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
Standards available for early adoption	
— Non-current Liabilities with Covenants – Amendments to IAS 1	1 January 2024
— 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
— Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7	1 January 2024
— Lack of Exchangeability – Amendments to IAS 21	1 January 2025
— Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).	To be determined

The adoption of these new standards is not expected to have a material 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

4. KEY JUDGMENTS AND ESTIMATES (Continued)

Key judgments and sources of estimation uncertainty (continued)

(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. The discount rate is the minimum hurdle rate/ internal rate of return, which we consider a motivated third-party buyer would require, given the risk and reward factors inherent in the Asset's income stream over the 5-year analysis horizon.

Future cash flows are based on the existing rental contract and expected annual rental income increments and budgeted expenditure. The discount rates are informed by market conditions and unique or specific attributes of the investment property. Changes in assumptions of future cash flows and discount 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 discount rate ranging from 13% to 14% (2022: 11.5% to 13.5%) in capitalizing the future cash flows to arrive at the market 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 judgements 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 24(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).

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

5. RENTAL AND RELATED INCOME	2023	2022
	KShs	KShs
Rental income*	254,178,670	291,115,336
Recoveries	64,800,765	59,771,042
Promotional income	3,441,127	3,405,304
	322,420,562	354,291,682

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

6. INTEREST INCOME	2023	2022
	KShs	KShs
Interest on fixed deposits and treasury bills	25,163,729	26,412,946
Interest on call deposits	13,613,967	4,608,524
	38,777,696	31,021,470

7. REALISED GAIN ON DISPOSAL OF INVESTMENT PROPERTY		
Fair value of investment property disposed (Note 14)	(30,000,000)	-
Proceeds from sale of investment property	43,365,500	-
Gain on disposal of investment property	13,365,500	-

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

8. PROPERTY EXPENSES	2023 KShs	2022 KShs
The following items are included in property expenses:		
Property administration expenses		
Utility expenses	32,421,969	24,124,257
Property management fees	16,392,222	13,597,128
Gardening and cleaning	13,043,482	13,268,218
Security	12,235,965	10,987,440
Repairs and maintenance	11,170,188	22,325,749
Insurance	7,012,441	6,399,726
Advertising and sales promotion	6,581,982	5,753,414
Property valuation fees	2,129,800	1,933,334
Legal and professional fees	883,622	1,317,855
Licenses and permits	476,000	466,215
Letting fees	188,790	397,997
Statutory health and safety audits	90,000	558,400
Movement in expected credit loss provision	(2,043,995)	(179,232)
Irrecoverable withholding tax	-	2,705,087
	100,582,466	103,655,588
Other operating property expenses		
Audit fees - current period	4,407,778	4,957,167
- Service charge	992,000	948,975
- Prior year over accrual	(750,625)	-
Consultancy fees	2,529,426	4,221,829
Depreciation of property and equipment	2,062,215	1,209,906
Sundry expenses	971,497	519,108
Rent and rates	541,422	429,704
Postage and telephone	468,000	468,000
Bank charges	69,792	65,288
Staff expenses	64,814	28,704
Printing and stationery	720	-
Other property expenses*	(14,758,727)	14,758,727
Subscription	-	8,765
	(3,401,688)	27,616,173
	97,180,778	131,271,761

*Other property expenses relate to reversal of a provision made in the year ended December 2022.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

9. FUND OPERATING EXPENSES	2023 KShs	2022 KShs
The following items are included in fund operating expenses:		
Asset management fees	70,000,000	70,000,000
Trustee and custody fees	22,367,366	23,271,412
Business restructuring costs	20,548,332	5,525,000
Professional and other fees	4,074,699	3,993,916
Audit fees	4,252,854	3,908,510
Public relations and marketing	3,435,837	2,363,510
Legal fees	2,524,000	1,525,000
Licenses	948,229	958,763
Consultancy	446,298	540,615
Depreciation	9,312	5,094
Bank charges	25,957	1,052
General administration	3,450	-
	128,636,334	112,092,872
10. BASIC AND HEADLINE EARNINGS PER UNIT		
Basic earnings – comprehensive income attributable to unit holders for the period	(297,642)	(28,363,591)
Adjusted for:		
Fair value adjustment to investment properties (including straight-line lease accrual movement)	143,254,424	152,840,649
Headline earnings	142,956,782	124,477,058
Adjusted for:		
Straight-line lease accrual movement	5,789,864	17,471,461
Realised loss on disposal of property	(85,500,000)	-
Distributable earnings	63,246,646	141,948,519
Distribution to unitholders (Note 18)	126,680,610	117,631,995
Distributable earnings per unit (KShs)	0.35	0.78
Distribution per unit (KShs)	0.70	0.65
Basic earnings and diluted earnings per unit (KShs)	0.00	(0.16)
Headline earnings per unit (KShs)	0.79	0.69
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

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

11. INVESTMENT PROPERTIES	2023	2022
	KShs	KShs
At 1 January	2,918,200,000	3,258,000,000
Additions - capital expenditure	144,288	30,912,110
Fair value adjustment to investment properties*	(138,644,288)	(170,312,110)
Transfer to investment property – current asset	-	(200,400,000)
At 31 December	<u>2,779,700,000</u>	<u>2,918,200,000</u>

*The total fair value losses in the income statement is KShs. 149,044,288 comprising of loss on fair value on investment property of KShs. 138,644,288 as stated above and investment property – current assets of KShs. 10,400,000 (Note 14).

The investment properties were independently valued by Jones Lang LaSalle Kenya (Pty) Limited as at 31 December 2023 and 31 December 2022. 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 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. 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. Cost of land was based on the market rates prevailing in the areas where the properties are located. 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 except for one property classified as investment property – current assets which is categorized as level 2.

Unobservable inputs

At the reporting date the following assumptions and unobservable inputs had been applied by the valuer in determining the fair value of the property portfolio:

	2023	2022
Retail sector	%	%
Term yield	14.0	14.0
Reversionary yield	9.5	9.5
Discount rate	14.0	14.0
Office and light industrial		
Term yield	13.0	13.0 – 14.0
Reversionary yield	9.25	9.25
Discount rate	13.0	13.0 – 14.0

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

11. INVESTMENT PROPERTIES (Continued)

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	<i>Discounted cash flow method:</i> The methodology uses the discounted cash flows where a discount rate is applied to a series of cash flows for future periods to discount them to a present value.	1. Discount rate 2. Reversionary yield	The estimated fair values would increase/ (decrease) if: 1. The discount rate was lower/ (higher). 2. Reversionary yield was lower/ (higher).
Investment Property- Current Asset	<i>Comparable Transactions Method</i> The methodology uses a range of similar properties within the area and compares their sale values. The comparable properties comprise listings that are currently on the market for sale.	Not Applicable	Not Applicable

12. STRAIGHT-LINE LEASE ACCRUAL	2023 KShs	2022 KShs
At 1 January	46,448,695	63,920,156
Change in straight-line lease accrual through profit or loss	<u>(5,789,864)</u>	<u>(17,471,461)</u>
At 31 December	<u>40,658,831</u>	<u>46,448,695</u>

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

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

13. PROPERTY AND EQUIPMENT

2023	Furniture and equipment KShs	Other equipment KShs	Total KShs
Cost			
At 1 January 2023	5,442,382	35,947,874	41,390,256
Additions	-	17,702,738	17,702,738
At end of year	5,442,382	53,650,612	59,092,994
Accumulated depreciation			
At start of year	3,322,963	3,446,314	6,769,277
Charge for the year	264,927	1,806,600	2,071,527
At end of year	3,587,890	5,252,914	8,840,804
Net book value as at 31 December 2023	1,854,492	48,397,698	50,252,190

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

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

14. INVESTMENT PROPERTY - CURRENT ASSET	2023 KShs	2022 KShs
At 1 January	200,400,000	-
Disposal of property (Note 7)	(30,000,000)	-
Fair value loss (Note 19)	(10,400,000)	-
Transfer from investment property (Note 11)	-	200,400,000
	<u>160,000,000</u>	<u>200,400,000</u>

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. Highway House was sold during the year under review and various offers relating to Bay Holdings have been reviewed. The process of selling the latter is ongoing.

15. TERM DEPOSITS	2023 KShs	2022 KShs
Term deposits	<u>176,760,959</u>	<u>287,049,120</u>

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	2023 KShs	2022 KShs
Trade receivables	49,881,797	56,355,313
Service charge debtors	10,092,227	7,038,104
Less: Provision for expected credit loss	<u>(39,986,386)</u>	<u>(42,030,381)</u>
Net trade receivables	<u>19,987,638</u>	<u>21,363,036</u>
Value Added Tax (VAT) receivable	21,720,940	23,501,948
Prepayments	5,922,640	6,048,134
Sundry debtors	<u>36,255,319</u>	<u>34,472,412</u>
	<u>83,886,537</u>	<u>85,385,530</u>

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.

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

17. CASH AND CASH EQUIVALENTS	2023	2022
	KShs	KShs
Call deposits	162,172,740	73,700,178
Fixed deposits	43,426,849	-
Cash at bank	13,181,385	16,198,413
Cash at hand	10,000	10,000
	<u>218,790,974</u>	<u>89,908,591</u>

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	2023	2022
	KShs	KShs
(a) Authorised as at 1 January and 31 December		
625,000,000 units at a nominal value of KShs. 20 per unit less capitalised unit issue costs	<u>12,500,000,000</u>	<u>12,500,000,000</u>
(b) Issued and paid as at 1 January and 31 December		
180,972,300 units at a nominal value of KShs. 20 per unit net of unit issue costs of KShs. 139,905,255	<u>3,479,540,745</u>	<u>3,479,540,745</u>

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 28th March 2023, the Trustee approved the declaration and payment of a distribution of KShs. 117,631,995 in relation to the year ended 31 December 2022.

After the reporting date 31 December, the following distribution was recommended by the REIT Manager and approved by the Trustee:

	2023	2022
	KShs	KShs
KShs 0.70 (2022: KShs. 0.65) distribution per qualifying unit	<u>126,680,610</u>	<u>117,631,995</u>

The distribution of KShs. 126,680,610 has not been recognised as a liability as at 31 December 2023 as it was declared after the end of the financial reporting period (2022: KShs. 117,631,995).

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.

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

19. FAIR VALUE RESERVE	2023 KShs	2022 KShs
At 1 January	(255,818,907)	(85,506,797)
Fair value adjustment on investment properties (Note 11)	(138,644,288)	(170,312,110)
Fair value adjustment on investment property – current assets (Note 14)	(10,400,000)	-
Transfer to retained earnings	85,500,000	-
At 31 December	<u>(319,363,195)</u>	<u>(255,818,907)</u>

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

20. TRADE AND OTHER PAYABLES	2023 KShs	2022 KShs
Trade payables	23,506,742	26,211,016
Tenant deposits	94,552,009	93,926,510
Accruals	33,977,258	58,825,478
Other payables	10,929,682	12,246,610
	<u>162,965,691</u>	<u>191,209,614</u>

21. CASH GENERATED FROM OPERATIONS		
Net loss for the year	(297,642)	(28,363,591)
Adjusted for:		
Depreciation of property and equipment (Note 13)	2,071,527	1,215,000
Realised gain on disposal of property (Note 7)	(13,365,500)	-
Fair value adjustment to investment property (Note 11)	149,044,288	170,312,110
	<u>137,452,673</u>	<u>143,163,519</u>
Working capital changes in:		
Trade and other receivables	1,498,993	(11,112,372)
Trade and other payables	(28,243,923)	21,888,187
	<u>(26,744,930)</u>	<u>10,775,815</u>
Cash generated from operations	<u>110,707,743</u>	<u>153,939,334</u>

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

22. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Identification of related parties

ICEAL LION Asset Management Limited is the manager of the REIT having replaced STANLIB Kenya Limited on 18 May 2020.

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 three investment properties; having replaced CBRE Excellerate.

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):

- (i) Greenspan Mall Limited
- (ii) Bay Holdings Limited
- (iii) Signature Assets Limited
- (iv) Starling Park Properties LLP

(b) Related party transactions

	2023 KShs	2022 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	20,710,524	21,547,604
Custodial fees paid to Co-operative Bank Kenya Limited	1,656,842	1,723,808
Receiving Bank fees paid to Co-operative Bank of Kenya	2,333,772	-
Other administration fees paid to Co-operative Bank of Kenya Limited for cheque writing fees	944,740	970,098
Property Management fees paid to Knight Frank Kenya	15,970,080	13,597,128
Bank charges paid to Co-operative Bank	95,750	66,340

ICEA LION Group held the following units in the REIT as at 31 December 2023 (2022 – 5,000,000).

Holder's name	Number of units	% Holding
ICEA LION Life Assurance Company Ltd	23,577,223	13.03
ICEA LION Asset Management Limited	19,624,320	10.84
Total	43,201,543	23.87

These transactions with the related party were at arm's length.

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

22. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(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	2023 KShs	2022 KShs
Investment account - fixed deposits	REIT	126,506,301	-
Investment account	REIT	5,776,025	7,309,443
ILAM REIT Rent Coll A/C - Greenspan Mall	Greenspan Mall Limited	3,211,660	2,709,565
Knight Frank Kenya Ltd - Greenspan Mall A/c	Greenspan Mall Limited	2,142,787	407,957
Knight Frank Kenya Ltd - Starling Park Properties	Starling Park Properties LLP	137,805	4,954,187
ILAM REIT Rent Coll A/C – Signature International	Signature Assets Limited	830,940	793,513
ILAM REIT Rent Coll A/C - Bay Holdings	Bay Holdings Limited	1,082,168	23,747
Total		139,687,686	16,198,412

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

23. 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. The REIT holds security deposits from the lessees against the lease contracts equivalent to 1 - 6 months rental income.

Contractual rental income recognised by the REIT during the year ended 31 December 2023 was KShs. 254,178,670 (2022: KShs. 291,115,336).

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

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

23. LEASES (Continued)

Leases as lessor (continued)

Operating lease – continued

Operating leases under IFRS 16	2023 KShs
Less than one year	166,771,143
One to two years	138,872,569
Two to three years	127,155,494
Three to four years	121,587,131
Four to five years	119,093,668
More than five years	203,071,730
Total	876,551,735
	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

The REIT earned rental income of KShs. 254,178,670(2022: KShs. 291,115,336) from the four subsidiaries, see Note 5.

The REIT incurred property expenses of KShs. 100,582,466 (2022: KShs 103,655,588) amount, see Note 8.

24. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

24. RISK MANAGEMENT (Continued)

(b) Financial risk management (continued)

(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 2023.

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 11.9% in the current year (2022: 9.4%).

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 and equity would have been KShs. 387,777 (2022: KShs. 310,215) 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 loss allowance for expected credit losses 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.

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

24. RISK MANAGEMENT (Continued)

(b) Financial risk management (continued)

(ii) Credit risk – continued

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

	2023	2022
	KShs	KShs
Trade receivables (Note 16)	49,881,797	56,355,313
Service charge debtors (Note 16)	10,092,227	7,038,104
Sundry debtors (Note 16)	36,255,319	34,472,412
Term deposits (Note 15)	176,760,959	287,049,120
Cash and cash equivalents less cash in hand (Note 17)	218,780,974	89,898,591
	<u>491,771,276</u>	<u>474,813,540</u>

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:

	2023	2022
	KShs	KShs
Current	1,119,771	3,032,814
Past due 30 days	1,245,061	3,753,736
Past due 60 days	10,135,469	7,758,105
Past due 90 days	283,894	452,542
Past due 120 and above days	37,097,602	41,358,116
	<u>49,881,797</u>	<u>56,355,313</u>

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. 70,611,714 and bank guarantees amounting to KShs 23,940,296 is as at 31 December 2023 (2022: cash deposit – KShs 69,986,214 and bank guarantees – KShs 23,940,296)

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

24. RISK MANAGEMENT (Continued)

(b) Financial risk management (continued)

(ii) *Credit risk (Continued)*

The REIT utilizes the S & P probability of default factor for the retail industry of 3.79% (2022: Moodys rate - 12.8%) to determine the expected credit losses. Where the expected credit loss is higher, a specific provision greater than the 3.79% (2022: 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 the 12-month expected credit loss allowance

The movement in the 12-month allowance for impairment in respect of trade and other receivables during the period was as follows:

	2023	2022
	KShs	KShs
Balance at the beginning of the period	42,030,381	42,209,613
Movement in provision for bad debts (Note 8)	(2,043,995)	(179,232)
Balance at 31 December (Note 16)	<u>39,986,386</u>	<u>42,030,381</u>

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

The Management assessed the expected credit loss on other financial assets i.e. bank balances, term and call deposits and noted that this was immaterial to the financial statements and hence not adjusted in these financial statements. The assessed ECL provision amounted to KShs 3, 777,682 (2022: KShs 5,233,435).

(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.

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

24. RISK MANAGEMENT (Continued)

(b) Financial risk management (continued)

(iii) Liquidity risk (continued)

The REIT aims to maintain the level of its cash and cash equivalents and other highly liquid assets at an amount that is in excess of the expected cash outflows on financial liabilities over the next 60 days. The REIT holds financial assets of KShs 501,863,503 (2022: KShs 474,813,540) relating to trade and other receivables as well as bank, call and term deposits (See note 24 (b) (ii)). The assets are due on demand except for fixed deposits balances of KShs 176,760,959 (2022: KShs 287,049,120) that are due within a period of 90 days after the balance sheet date.

Below is the outline of the REIT's current liabilities:

	Due on demand KShs
As at 31 December 2023:	
Trade payables and accrued expenses (Note 20)	<u>162,965,691</u>
As at 31 December 2022:	
Trade payables and accrued expenses (Note 20)	<u>191,209,613</u>

(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 Listed derivative instruments Listed equities	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives	Corporate bonds in illiquid markets Highly structured OTC derivatives with unobservable parameters

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

24. RISK MANAGEMENT (Continued)

(c) Fair value hierarchy (continued)

(ii) Valuation hierarchy (continued)

	Level 1	Level 2	Level 3
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 2 and 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.

2023	Level 1	Level 2	Level 3	Total
KShs				
Assets				
Investment property	-	160,000,000	2,779,700,000	2,939,700,000
Total assets	-	160,000,000	2,779,700,000	2,939,700,000
2022				
KShs				
Assets				
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

Details of changes in valuation techniques

There have been no changes in the valuation techniques during the period under review. Investment property was fair valued using the discounted cash flow and comparable transactions approaches. Refer to Note 11 to the financial statements.

ILAM FAHARI I-REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

25. CAPITAL COMMITMENT

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

	2023	2022
	KShs	KShs
Greenspan Mall solar installation	23,083,890	9,100,000
	23,083,890	9,100,000

26. CONTINGENT LIABILITIES

As at 31 December 2023, the REIT had no significant contingent liabilities (2022: None).

27. 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.126,680,610 distribution in relation to the 2023 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 received approval from the CMA to delist from the Main Investment Market Segment of the NSE. The delisting happened on 12th February 2024. The REIT has applied to the NSE for admission of its units to the Unquoted Securities platform (“USP”).

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

ILAM FAHARI I-REIT

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;
“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;

ILAM FAHARI I-REIT

Term or abbreviation	Meaning
“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;
“m²” 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
P & L	Profit or Loss

ILAM FAHARI I-REIT

Term or abbreviation	Meaning
“REIT”	means Real Estate Investment Trust, an unincorporated common law trust that has been authorised as such by the CMA;
“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;
“SME’s”	means Small and Medium Enterprises;
“SPV”	means special purpose vehicle;
“sq.ft.”	means square foot or square feet;
“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;

ILAM FAHARI I-REIT

Term or abbreviation	Meaning
“VAT”	means value-added tax as defined in the Value-Added Tax Act, 2013, as amended;
“ZAR”	means South African Rand.