



RSM Allied Accountants
Dr.abdelgadir Bannaga & Partners Co.

**Mulkia Gulf Real-Estate REIT Fund
Closed Investment Real Estate Traded Fund
(Managed by Mulkia Investment Company)
Interim Financial Statements (Unaudited)
For the six-month Period Ended 30 June 2018
With Limited Report Review**

Mulkia Gulf Real-Estate REIT Fund
Interim Financial Statements and Limited Review Report (Unaudited)
For the six-month period ended 30 June 2018

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Limited Review Report For Interim Financial Statements

To the Unitholders of Mulkia Gulf Real-Estate REIT Fund

Introduction

We have reviewed the accompanying interim statement of financial position of Mulkia Gulf Real-Estate Fund ("The Fund") as at 30 June, 2018, and the related interim statements of Profit or loss and other comprehensive income, change in net assets, and cashflow for the period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim financial statements in accordance with International Accounting Standard (34) "Interim Financial Reporting" endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review on Review Engagements-2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity endorsed in the Kingdom of Saudi Arabia. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements as of 30 June, 2018 are not prepared, in all material respects, in accordance with International Accounting Standard (34) "Interim Financial Reporting" endorsed in the Kingdom of Saudi Arabia.

RSM Allied Accountants

Dr. Abdelgadir Bannaga and Partners Company



Mohammed Al Nader

License No. 435

18 Dhul Qadah 1439 H (31 July 2018)

Riyadh, Saudi Arabia



Mulkia Gulf Real-Estate REIT Fund

Interim Statement of financial position (unaudited)

As at 30 June 2018

	<u>Note</u>	30 June 2018 (Unaudited) SR	31 December 2017 (Audited) SR
<u>Assets</u>			
Cash at Banks		95,003,294	18,299,137
Investment in real estate properties, Net	7	673,892,145	598,133,267
Account receivable from Lease		3,657,266	1,614,215
Prepayments		521,784	54,888
Total Assets		773,074,489	618,101,507
<u>Liabilities</u>			
Long-term loan	8	151,000,000	-
Deferred revenue	9	11,611,950	11,227,292
Fees Payables		3,746,070	975,366
Accrued Expenses		3,307,444	363,089
Total Liabilities		169,665,464	12,565,747
Net assets		603,409,025	605,535,760
Units in issue (Number)		60,000,000	60,000,000
Per unit value		10.06	10.09

The accompanying notes from (1) to (14) form an integral part of these interim financial statements

Mulkia Gulf Real-Estate REIT Fund

Interim statement of Profit or loss and other comprehensive income (Unaudited) For the six-month period ended 30 June 2018

		For the six-month period ended 30 June 2018 (Unaudited)
	<u>Note</u>	<u>SR</u>
Revenue		
Rental revenue		26,316,566
Other revenue		<u>30,000</u>
		26,346,566
Expenses		
Managements fees	11	(3,435,092)
Custodian fees		(132,594)
Real estate properties depreciation	7	(3,616,122)
Financing costs		(3,326,267)
Acquisition fees	11	(950,000)
Other administrative expenses		<u>(513,226)</u>
Total Expenses		<u>(11,973,301)</u>
Net Income from Operations		14,373,265
Other Comprehensive income		<u>-</u>
Total comprehensive income for the period		<u><u>14,373,265</u></u>

The accompanying notes from (1) to (14) form an integral part of these interim financial statements

Mulkia Gulf Real-Estate REIT Fund

Interim Statement of Change in Net Assets (Unaudited) For the six-month period ended 30 June 2018

	For the six-month period ended 30 June 2018 (Unaudited) SR
Net assets at the beginning of the period	605,535,760
Net Income from operations	14,373,265
Cash dividend during the period	(16,500,000)
Change from units transactions	
Proceeds from sale of units	-
Net change from units transactions	-
Net assets at the end of the period	603,409,025

Units Transactions

Transactions in units are summarized for the period as follows:

	For the six-month period ended 30 June 2018 Units
Units at the beginning of the period	60,000,000
Units sold	-
Net increase in units	-
Units at the end of the period	60,000,000

The accompanying notes from (1) to (14) form an integral part of these interim financial statements

Mulkia Gulf Real-Estate REIT Fund

Interim Statement of Cash Flows (Unaudited) For the six-month period ended 30 June 2018

	For the six-month period ended 30 June 2018 (Unaudited) SR
Operating activities	
Net Income from operations for the period	14,373,265
Adjustments to reconcile net income from operations with net cash used in operating activities:	
Real estate properties depreciation	3,616,122
	<u>17,989,387</u>
Change in operating assets and liabilities	
Investment in real estate properties	(79,375,000)
Account receivable from Lease	(2,043,051)
Prepayments	(466,896)
Deferred revenue	384,658
Fees Payables	2,770,704
Accrued Expenses	2,944,355
Net cash used in operating activities	<u>(57,795,843)</u>
Financing Activities	
Proceeds from sale of units	-
Long-term loan	151,000,000
Cash dividends	(16,500,000)
Net cash from financing activities	<u>134,500,000</u>
Net increase in cash at banks	76,704,157
Cash at banks at the beginning of the period	18,299,137
Cash at banks at the end of the period	<u>95,003,294</u>

The accompanying notes from (1) to (14) form an integral part of these interim financial statements

Mulkia Gulf Real-Estate REIT Fund

Notes to the interim financial statements (Unaudited) For the six-month period ended 30 June 2018

1- Fund Activities

Mulkia Gulf Real-Estate REIT Fund (The Fund) is a closed ended Shariah compliant real estate investment traded fund. The objective of the fund is acquisition of pre-developed real estate properties in order to obtain regular and frequent rental income and distribute a minimum of 90 percent of fund's net income to unit holders during the lifetime of the fund at least once annually within 90 days after financial year end which ends on December 31.

The Fund was started its operations on 16 Safar 1439 H (corresponding to 5 November 2017).

The fund is managed by Mulkia Investment Company. The books and records of the Fund are maintained in Saudi Riyals (SR).

2- Regulating authority

The Fund is governed by the Real Estate Investment Fund Regulations (the regulations) and instructions for Real-Estate Funds issued by CMA on 19 Jumad Al Thani 1427 H (corresponding to 15 July 2006) and 23 Muharram 1438 H (corresponding to 24 October 2016) Respectively, detailing requirements for all real state funds operations within the Kingdom of Saudi Arabia.

3- Statement of compliance

These interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, "Initial Financial Reporting", adopted in Saudi Arabia and other standards and publications approved by the Saudi Organization for Certified Public Accountants.

4- Adoption of new International Financial Reporting Standards, and Amendments

These interim financial statements are the first financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for the six-month period and are included in the first annual financial statements in accordance with International Financial Reporting Standards (IFRSs) and IFRS 1, "Adoption of International Financial Reporting Standards for the First Time" as endorsed in Saudi Arabia and other standards and regulations approved by the Saudi Organization of Certified Public Accountants.

For the year ended 31 December 2017, the Fund has prepared its financial statements in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants.

Accordingly, the interim financial statements have been prepared by the Fund in accordance with International Financial Reporting Standards (IFRS) as at 30 June 2018, with the comparative statement of financial position as at 31 December 2017.

No financial effect has been incurred on the financial statements as a result of the adoption of the International Financial Reporting Standards for the financial statements previously issued as at 31 December 2017.

**Notes to the interim financial statements (Unaudited)
For the six-month period ended 30 June 2018 (Continued)**

**5- New Standards, Amendments and Standards Issued and not Yet Effective
IFRS 16 Leases (Effective from 1/1/2019)**

This Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but is not applied by Fund when preparing these initial financial statements.

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The adoption of this standard in subsequent periods is not expected to have a material financial impact on the financial statements of the Fund.

6- Significant accounting policies

The significant accounting policies adopted are as follows:

Accounting convention

The interim financial statements are prepared under the historical cost convention and accrual basis of accounting, therefore no modifications on fair value in these interim financial statements.

Revenue Recognition

Revenue from the sale of development property and real estate investments is recognized when the significant risks and rewards have been transferred through a legal title deed or legally enforceable declaration of ownership to the buyer, where the probability of collection of the consideration is probable and the amount of revenue can be measured reliably.

Revenue rent is recognized according to accrual convention.

Cash and bank balances

Cash and bank balances include cash balances, banking murabhat and other investments which can be liquidated in three months or less.

Development Property

Acquired, constructed, or under construction properties is classified as development Property. Costs of development Property include cost of the land, and other development costs, the property is ready upon completion and delivery of all activities related to the property including the infrastructure and facilities for the entire project. Management reviews the carrying amounts of development Property at each statement of financial position date.

Investments in real estate properties

Real estate investments are recognized and represented in the buildings and lands which are used for rental purposes by cost net of accumulated depreciation, and impairment losses if any, there are no depreciation of lands, building depreciation is computed using the straight-line method over its estimated useful lives based on the following useful lives.

<u>DES.</u>	<u>Years</u>
Buildings	40 Years

The fair value of investments in real estate properties is disclosed in the notes to the interim financial statements.

6- Significant accounting policies (continued)

Impairment

Impairment loss is recognized (if any), for the excess amount in asset book value over its net realizable value.

Accounts payable

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

Zakat and income tax

Zakat and income tax are considered to be the obligation of the unit holders and are not provided for in these interim financial statements.

Foreign Currencies

Transactions in foreign currencies are translated into Saudi Riyals (SAR) at the rates of exchange prevailing at the dates of the transaction. Assets and liabilities in foreign currencies at statement of financial position date are retranslated into Saudi Riyals (SAR) at the rates of exchange ruling at that date. Resulting exchange gains and losses are recognized in the interim statement of profit or loss.

Expenses

Expenses are recognized on an accrual basis. The management fees are charged at an agreed rate with the fund Manager. These expenses are calculated and accrued half yearly, and these expenses are charged to the interim statement of profit or loss.

Net asset value

Net assets value per unit, as disclosed in statement of changes in net assets is calculated by divided the net assets of the fund by the numbers of units in issue at the period end.

Notes to the financial statements (Unaudited)

For the six-month period ended 30 June 2018 (Continued)

7- Investments in real estate properties, Net

The composition of the investments in real estate properties by historical cost is as follows:

	Lands on which buildings are constructed	Buildings	Total
	SR	SR	SR
Cost			
Beginning of the period	369,735,437	229,329,035	599,064,472
Additions during the period	19,288,125	60,086,875	79,375,000
End of the period	389,023,562	289,415,910	678,439,472
Accumulated depreciation			
Beginning of the period	-	931,205	931,205
Charge for the period	-	3,616,122	3,616,122
End of the period	-	4,547,327	4,547,327
Net book value			
As of June 30, 2018	389,023,562	284,868,583	673,892,145
As of December 31, 2017	369,735,437	228,397,830	598,133,267

The investment in real estate properties are presented at historical cost. The fair value of investment in real estate properties is based on an average of two market value evaluations prepared by independent evaluators. These values which are based on the estimates of the independent evaluators are subject to their estimation uncertainties.

The investment in real estate properties is represents as follows:

- Yasmeen property: represents a residential property located on El-Yasmeen District in north of Riyadh.
- Teknaya Compound: represents a commercial industrial compound consisting of five car maintenance centers, and 2 car showrooms and a spare parts sales center located southeast of Riyadh.
- Dinar property: represents a commercial property located on El-Zahraa District in Jeddah.
- West Avenue property: represents a commercial property located on El-Faysalia District in Dammam.
- Vivienda Compound: represents a participation by 76% in the hotel villas compound located on Prince Faisal Bin Fahad Bin Abdul Aziz Road in Al-Hada district in Riyadh.

Title deed of real estate property was registered in the name of Tamdeen El Ola Real Estate Company, the company was established for registration and custody of fund's assets based on CMA decision No. 1/6/4902/17 dated 28 September 2017.

8- Long-term loan

During 2018 the fund obtained a credit facility from Bank Al-Bilad in the amount of SR300,000,000 to finance the activities of the Fund by ensuring that the real estate invested in the Fund is subject to financing in the name of Al Bilad Real Estate Company with a coverage rate of not less than 175% form the facility amount, The outstanding balance of the loan as of June 30, 2018 is SR 151,000,000, and the amount of the financing will be paid by one installment after five years from the date of the first draw. The Fund shall bear semi-annual financing fees.

Notes to the financial statements (Unaudited)

For the six-month period ended 30 June 2018 (Continued)

9- Deferred revenue

Deferred revenue is represented in the revenue from investment property rental contracts which does not belong to the period ended June 30,2018.

10- Effect on net assets value if investment in real estate properties are fair valued

In accordance with Article 22 of the Real Estate Investment Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the fund manager evaluates the fund's assets based on an average of two valuations prepared by independent evaluators. As set out in the terms and conditions of the fund, net assets values declared and management fee calculations are based on the market values obtained. However, in accordance with International Financial Reporting Standards as endorsed in Saudi Arabia, investment in real estate properties are carried at cost in these interim financial statements.

- 1- The unrealized loss on real estate properties based on real estate evaluations (fair value) as follows:

	30 June 2018 (Unaudited) SR	31 December 2017 (Audited) SR
Fair value of investment in real estate properties	658,972,350	587,276,384
Cost value of investment in real estate properties (Note 7)	(673,892,145)	(598,133,267)
Unrealized loss based on real estate evaluations	(14,919,795)	(10,856,883)
Units in issue	60,000,000	60,000,000
Per unit share in unrealized loss based on real estate evaluations	<u>(0.25)</u>	<u>(0.18)</u>

- 2- The net assets values using the fair values of the real estate properties as follows:

	30 June 2018 (Unaudited) SR	31 December 2017 (Audited) SR
Net assets value at cost as presented in these financial statements	603,409,025	605,535,760
Unrealized loss based on real estate evaluations (Note 10-1)	(14,919,795)	(10,856,883)
Net assets value based on fair value	<u>588,489,230</u>	<u>594,678,877</u>

- 3- The net assets value per unit using the fair values of the real estate properties as follows:

	30 June 2018 (Unaudited) SR	31 December 2017 (Audited) SR
Net assets value per unit at cost as presented in these financial statements	10.06	10.09
Impact on net assets value per unit on account of unrealized loss based on real estate evaluations (Note 10-1)	(0.25)	(0.18)
Net assets value per unit at fair value	<u>9.81</u>	<u>9.91</u>

Mulkia Gulf Real-Estate REIT Fund

Notes to the financial statements (Unaudited)

For the six-month period ended 30 June 2018 (Continued)

11- Transactions with related parties

The Fund pays the fund manager a management fee of 1 % per annum calculated on the net assets of the fund calculated and paid half yearly for the purpose of calculating management fees is based on the fair value of investment in real estate properties. (Note 10).

Significant related party transactions during the period are described as follows:

Related Party	Nature of transactions	Amount of transactions for the period ended 30 June 2018 (Unaudited)	Balances at 30 June 2018 (Unaudited)	Balances at 31 December 2017 (Audited)
		SR	SR	SR
Mulkia Investment Company	Management fees	3,435,092	3,606,846	930,129
	Acquisition fees	950,000	950,000	-
	Restructure fees	453,000	453,000	-

The unit holders' account as of 30 June 2018 at included 1,500,000 units held by the Fund Manager (31 December 2017: 1,500,000 units).

12- Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Fund uses the following hierarchy to determine and disclose the fair value of real estate investments:

First level: market prices which stated in active markets for the same financial instruments.

Second level: Valuation techniques are based on inputs that effect on fair value and can be observable directly or indirectly in the market.

Third level: Valuation techniques are based on inputs that effect on fair value and cannot be observable directly or indirectly in the market.

The valuation of fair value of the real estate investments in level 3.

13- Last valuation day

The last valuation day for the period was 30 June 2018 (31 December 2017:31 December 2017)

14- General

The figures in these interim financial statements are rounded to the nearest Saudi Riyal.