

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 2019
With Limited Report Review

Interim Financial Statements and Limited Review Report (Unaudited)
For the six-month period ended 30 June 2019

Index	Page
Limited Review Report for interim financial statements	-
Interim Statement of financial position (unaudited)	2
Interim statement of Profit or loss and other comprehensive income (unaudited)	3
Interim Statement of Changes in Net Assets (unaudited)	4
Interim Statement of Cash Flow (unaudited)	5
Notes to the interim financial statements (unaudited)	6-12



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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, 2019, 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, 2019 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
29 Dhual-Qadah 1440H (1 August 2019)
Riyadh, Saudi Arabia



Mulkia Gulf Real-Estate REIT Fund

Interim statement of financial position (Unaudited)

AS of 30 June 2019

		30 June 2019 (Unaudited) SR	31 December 2018 (Audited) SR
	Note		
<u>ASSETS</u>			
Cash at Banks		11,719,829	26,010,030
Investment in real estate properties, Net	6	721,052,101	714,122,755
Account receivable from Lease		24,409,762	13,712,136
Accrued Revenue		3,819,842	2,614,858
Prepayments		391,530	1,134,689
TOTAL ASSETS		761,393,064	757,594,468
<u>LIABILITIES</u>			
Long-term loan	7	149,178,444	149,038,515
Revenue received in advanced	8	12,859,481	12,859,481
Fees Payables		7,886,780	5,476,294
Accrued Expenses		5,771,955	4,088,195
TOTAL LIABILITIES		175,696,660	171,462,485
NET ASSETS		585,696,404	586,131,983
Units in issue (Number)		60,000,000	60,000,000
Unit Value		9.76	9.77

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The accompanying notes from (1) to (16) form an integral part of these interim financial statements

Interim statement of Profit or loss and other comprehensive income (Unaudited)
For the six-month period ended 30 June 2019

		For the six-month period ended 30 June 2019 (Unaudited)	For the six-month period ended 30 June 2018 (Unaudited)
	Note	SR	SR
REVENUE			
Rental revenue		28,984,346	26,316,566
Other revenue		<u>28,385</u>	<u>30,000</u>
		29,012,731	26,346,566
EXPENSES			
Managements fees	10	(3,711,375)	(3,435,092)
Custodian fees		(143,839)	(132,594)
Real estate properties depreciation	6	(3,972,369)	(3,616,122)
Financing costs		(4,402,806)	(3,326,267)
Acquisition fees	10	-	(950,000)
Other administrative expenses		<u>(381,401)</u>	<u>(513,226)</u>
TOTAL EXPENSES		(12,611,790)	(11,973,301)
NET PROFIT FROM OPERATIONS		16,400,941	14,373,265
Reversal of impairment on investment property		<u>3,563,480</u>	<u>-</u>
NET PROFIT FOR THE PERIOD		19,964,421	14,373,265
Other Comprehensive income		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		19,964,421	14,373,265

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The accompanying notes from (1) to (16) form an integral part of these interim financial statements

Mulkia Gulf Real-Estate REIT Fund
(Managed by Mulkia Investment Company)

Interim Statement of Change in Net Assets (Unaudited)
For the six-month period ended 30 June 2019

	For the six-month period ended 30 June 2019 (Unaudited) SR	For the six-month period ended 30 June 2018 (Unaudited) SR
Net assets at the beginning of the period	586,131,983	605,535,760
Net profit from operations	19,964,421	14,373,265
Cash dividend during the period	(20,400,000)	(16,500,000)
Net assets at the end of the period	585,696,404	603,409,025

UNITS TRANSACTIONS

Transactions in units are summarized for the period as follows:

	For the six-month period ended 30 June 2019 (Unaudited) Units	For the six-month period ended 30 June 2018 (Unaudited) Units
Units at the beginning of the period	60,000,000	60,000,000
Net change in units	-	-
Units at the end of the period	60,000,000	60,000,000



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The accompanying notes from (1) to (16) form an integral part of these interim financial statements

Mulkia Gulf Real-Estate REIT Fund
(Managed by Mulkia Investment Company)

Interim Statement of Cash Flows (Unaudited)
For the six-month period ended 30 June 2019

	For the six-month period ended 30 June 2019 (Unaudited) SR	For the six-month period ended 30 June 2018 (Unaudited) SR
CASH FLOWS OPERATING ACTIVITIES		
Net profit for the period	19,964,421	14,373,265
ADJUSTMENTS TO RECONCILE NET PROFIT FOR THE PERIOD WITH NET CASH FROM OPERATING ACTIVITIES:		
Real estate properties depreciation	3,972,369	3,616,122
Deferred financing costs amortization	139,929	-
Reversal of impairment on investment property	(3,563,480)	-
	<u>20,513,239</u>	<u>17,989,387</u>
CHANGE IN OPERATING ASSETS AND LIABILITIES		
Account receivable from Lease	(10,697,626)	(2,043,051)
Accrued Revenue	(1,204,984)	-
Prepayments	743,159	(466,896)
Revenue received in advanced	-	384,658
Fees Payables	2,410,486	2,770,704
Accrued Expenses	<u>1,683,760</u>	<u>2,944,355</u>
NET CASH FROM OPERATING ACTIVITIES	<u>13,448,034</u>	<u>21,579,157</u>
CASH FLOWS INVESTING ACTIVITIES		
Real estate Investment	<u>(7,338,235)</u>	<u>(79,375,000)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(7,338,235)</u>	<u>(79,375,000)</u>
CASH FLOWS FINANCING ACTIVITIES		
Long-term loan	-	151,000,000
Cash dividends	<u>(20,400,000)</u>	<u>(16,500,000)</u>
NET CASH (USED IN)/ FROM FINANCING ACTIVITIES	<u>(20,400,000)</u>	<u>134,500,000</u>
NET CHANGE IN CASH AT BANKS	<u>(14,290,201)</u>	<u>76,704,157</u>
Cash at banks at the beginning of the period	<u>26,010,030</u>	<u>18,299,137</u>
CASH AT BANKS AT THE END OF THE PERIOD	<u>11,719,829</u>	<u>95,003,294</u>

The accompanying notes from (1) to (16) form an integral part of these interim financial statements



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Notes to the interim financial statements (Unaudited)
For the six-month period ended 30 June 2019

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 each year.

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).

The address of the fund manager is as follow:

Mulkia Investment Company - Prince Mohammed Bin Abdulaziz Road- Olaya District- P.O 52775- Riyadh 11573, Kingdom of Saudi Arabia.

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 Jumada 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 must follow.

3. ADOPTED ACCOUNTING STANDARDS

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. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Except as noted below, the accounting policies applied to these condensed interim financial statements are the same as those applied to the financial statements for the previous year for the year ended 31 December 2018.

(IFRS 16) Leases

The Fund has adopted the (IFRS 16) with the accumulate effect of the initial application of this standard. The Fund will choose to apply the standard to the contracts previously identified as lease contracts by applying (IAS 17) and (IFRIC 4). The Fund will choose to use proposed exemption for lease contracts where the lease term expires within 12 months as of the submission date of the initial application, and lease contracts with asset that has a low value. The Fund has evaluated (IFRS 16) and has determined the difference in comparison with (IAS17) and (IFRIC 4) is not significant on the financial statements of the Fund as a whole. Consequently, there was no financial impact on the interim financial statements as a result of the adoption of (IFRS 16).

Notes to the interim financial statements (Unaudited)
For the six-month period ended 30 June 2019 (Continued)

5. 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, and going concern concept.

Revenue Recognition

Revenues from the sale of development property and investments property are 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.

Revenues rents are recognized on straight-line basis over the renting period and according to accrual basis.

Cash and bank balances

Cash and bank balances include cash balances, deposits 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. Fund's management reviews the carrying amounts of development property at each statement of financial position date. An impairment loss, if any, is recognized for the amount by which the carrying amount of the assets exceeds its net realizable value.

Investments in real estate properties

Investment property is recognized and represented in the buildings and lands which are used for rental purposes by cost less 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>Description</u>	<u>Years</u>
Buildings	40 Years

The fair value of investments property is disclosed in the notes to the interim financial statements.

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.

Notes to the financial statements (Unaudited)
For the six-month period ended 30 June 2019 (Continued)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

6. 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 SR	Buildings SR	Projects under construction SR	Total SR
Cost				
Beginning of the period	391,928,701	330,319,660	15,562,500	737,810,861
Additions during the period	4,975,323	2,362,912	-	7,338,235
End of the period	396,904,024	332,682,572	15,562,500	745,149,096
Accumulated depreciation				
Beginning of the period	-	8,473,102	-	8,473,102
Charge for the period	-	3,972,369	-	3,972,369
End of the period	-	12,445,471	-	12,445,471
Impairment on investment property	(8,083,483)	(3,263,767)	(304,274)	(11,651,524)
Net book value				
As of June 30, 2019	388,820,541	316,973,334	15,258,226	721,052,101
As of December 31, 2018	<u>382,720,384</u>	<u>316,832,871</u>	<u>14,569,500</u>	<u>714,122,755</u>

The investment property is presented at historical cost. The fair value of investment property 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

Notes to the financial statements (Unaudited)
For the six-month period ended 30 June 2019 (Continued)

6-INVESTMENTS IN REAL ESTATE PROPERTIES, NET (CONTINUED)

The investment property represents as follows:

- Yasmeen property: represents a residential property located on El-Yasmeen District in north of Riyadh.
- Teknaya commercial industrial 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 Damman.
- Vivienda Compound: represents hotel villas compound located on Prince Faisal Bin Fahad Bin Abdul Aziz Road in Al-Hada district in Riyadh city.
- Obhur property: represents a restaurant property located on Obhur District in Jeddah.

During June 2019, the fund valued the real estate properties and according to this valuation the fund reversal impairment for these properties during the period ended 30 June 2019 with amount S.R. 3,563,480 (31 Dec. 2018: impairment losses with amount S.R. 15,215,004)

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. The land assets of the Yasmeen Building, the Teknaya Compound, the Dinar property and the West Avenue property were mortgaged to Al Bilad Real Estate Company (a subsidiary of Bank Al-Bilad) as collateral for the Fund's financing (note 7).

7. LONG-TERM LOAN

The fund obtained a credit facility from Bank Al-Bilad in the amount of SR300,000,000 during the year of 2018 to finance the activities of the Fund by guarantee that the properties deed mortgaged 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% from the facility amount, The balance use of the loan as of June 30, 2019 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.

The movement of the finance is as the following:

	30 June 2019 (unaudited) SR	31 December 2018 (unaudited) SR
Balance at the beginning of the period / year	151,000,000	-
Used during the period / year	-	151,000,000
(Less)		
Deferred financing costs	(1,821,556)	(1,961,485)
	149,178,444	149,038,515

8. DEFERRED REVENUE

Deferred revenue is represented in the revenue from investment property rental contracts which does not belong to the period ended June 30, 2019.

Notes to the financial statements (Unaudited)
For the six-month period ended 30 June 2019 (Continued)

9. 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 should be evaluating 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 fees calculations are based on the market values obtained. However, in accordance with International Financial Reporting Standards as endorsed in kingdom of Saudi Arabia, investment property is carried at lower of the cost or net realizable value in these interim financial statements.

The fair value of the development properties is determined by two evaluators, VALIE company and its partner for property evaluation (Independent evaluator certified by the Saudi organization for certified evaluators) License Holder No. 1210001114 and ISTNAD office for property evaluation (Independent evaluator certified by the Saudi organization for certified evaluators) License Holder No. 1210000037.

The average valuation of investment property as of June 30, 2019 is SR 732,03 Million (31 December 2018:SR 720,34 Million).

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	SR	SR
Fair value of investment in real estate properties	732,034,412	720,337,040
Book value of investment in real estate properties (Note 6)	(721,052,101)	(714,122,755)
Unrealized gains based on real estate evaluations	10,982,311	6,214,285
Issued units	60,000,000	60,000,000
Per unit share in unrealized gains based on real estate evaluations	0.18	0.10

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	SR	SR
Net assets value at cost as presented in these financial statements	585,696,404	586,131,983
Unrealized gains based on real estate evaluations (Note 9-1)	10,982,311	6,214,285
Net assets value based on fair value	596,678,715	592,346,268

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	SR	SR
Net assets value per unit at cost as presented in these financial statements	9.76	9.77
Impact on net assets value per unit on account of unrealized gains based on real estate evaluations (Note 9-1)	0.18	0.10
Net assets value per unit at fair value	9.94	9.87

Notes to the financial statements (Unaudited)
For the six-month period ended 30 June 2019 (Continued)

10. 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 9)

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 2019 (Unaudited)	Balances at 30 June 2019 (Unaudited)	Balances at 31 December 2018 (Audited)
		SR	SR	SR
Mulkia Investment Company	Management fees	3,711,375	7,739,380	3,842,436
	Acquisition fees	-	-	950,000
	Restructure fees	-	-	453,000
	Expenses	-	-	-
	Repayment	-	-	77,474

The unit holders' account as of 30 June 2019 at included 1,500,000 units held by the Fund Manager (31 December 2018: 1,500,000 units).

11. FAIR VALUE

Fair value is the amount for which the asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments are comprising of financial assets and financial liabilities.

The Fund uses the following hierarchy to determine and disclose the fair value of investment property:

First level: Market prices which stated in active markets for the same property (without modification or refilling).

Second level: Market prices which stated in active markets for same assets and liabilities, or other valuation techniques are based on significant inputs and that can be observable directly in the market.

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

The valuation of fair value of the investment property in level 3.

12. RISKS MANAGEMENT

Credit risks

Credit risk is the inability of a party to meet its obligations resulting in the other party having suffered a financial loss, the Fund does not have a significant concentration of credit risk. Cash is deposited with a local bank with a high credit rating.

Commissions prices risks

Risks arising from the fluctuation of the value of financial instruments is the result of fluctuations in commissions prices prevailing in the market. The Fund has no significant assets or liabilities associated with commissions prices as of 30 June 2019.

Currencies risks

Risks that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The management monitors foreign currency exchange rates. The Fund is not subject to currencies risks since all the significant transactions are in Saudi Riyals.

Notes to the financial statements (Unaudited)
For the six-month period ended 30 June 2019 (Continued)

12. RISKS MANAGEMENT (Continued)

Liquidity risks

Risks that “the Fund” will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risks may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Fund manages its liquidity risks by ensuring that sufficient bank balances and cash are available.

13. LAST VALUATION DAY

The last valuation day for the period was 30 June 2019 (31 December 2018:31 December 2018)

14. GENERAL

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

15. SUBSEQUENT EVENTS

In the opinion of management, there have been no significant subsequent events since the period ended 30 June 2019 to the date of approval for these interim financial statements which could have a material impact on these interim financial statements of the Company as at 30 June 2019.

16. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Fund Manager on 29 Dhual-Qadah 1440H (1 August 2019)