



**RSM Allied Accountants**  
Dr.abdelgadir Bannaga & Partners Co.

**Mulkia IPO Fund**  
**(Managed by Mulkia Investment Company)**  
**Financial Statements**  
**For the year ended 31 December 2017**  
**With Auditor's Report**

**Mulkia IPO Fund**  
**Financial Statements and Auditor's Report**  
**For the year ended 31 December 2017**

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<b>Description</b>	<b>Page</b>
Auditor's Report	-
Balance Sheet	4
Statement of operations	5
Statement of Cash flows	6
Statement of Changes in Net Assets	7
Notes to the financial statements	8-10

## Auditor's Report

### To the Unitholders of Mulkia IPO Fund

#### Opinion

We have audited the financial statements of Mulkia IPO Fund ("The Fund") managed by Mulkia Investment Company ("The Manager"), which comprise the balance sheet as of December 31, 2017, and the statements of operations, cash flows and change in net assets for the year then ended and the notes to the financial statements and summary of the significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mulkia IPO Fund as of December 31, 2017 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia.

#### Basis of our opinion

We conducted our audit in accordance with International Standards on Auditing that endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the fund in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of 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 financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

The key audit matter	How the matter was addressed in our audit
<p><b>Trading Investments</b> The Fund has trading investments amounting to SR 10.8 million as at 31 December 2017. Its investments consist of investments in listed shares, these investments evaluated based on market price at the balance sheet date, investments in mutual funds and real estate investment funds. these investments evaluated based on unit price of the fund at the balance sheet date. The trading investments are valued at fair value, unrealized gains and losses on the revaluation of investments are recognized in the statement of operations. We have considered the trading investments to be a key audit matter because it is affected with fluctuation of prices in the stock market.</p>	<p>We performed the following procedures in respect of trading investments:</p> <ul style="list-style-type: none"> <li>• Verified the fair value for the investments and match it with announced prices in the market at the balance sheet date as well as the unit prices for funds.</li> <li>• Verified the calculation of the unrealized gains and losses on the revaluation of investments that recognized in the statement of operations.</li> <li>• Assessed the appropriateness of the disclosures in relation to the investments.</li> </ul>

### **The other information**

The management is responsible for the other information. Other information consists of the information included in the Fund's annual report, other than the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, and we don't express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatements, whether due to fraud or error.

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

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

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

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

**As a part of an audit in accordance with International Standards on Auditing that endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional skepticism throughout the audit, We also:**

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk is not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as a fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the fund to cease to continue as a going concern.
- Evaluate the overall presentations, structure and the content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year 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 legal and Regulatory Requirements**

The Fund maintains duly organized accounting records, and agreements with the financial statements and recommends their approval.

### **RSM Allied Accountants**

#### **Dr. Abdelgadir Bannaga and Partners Company**



Mohammed Al Nader

License No. 435

17 Jumada al Akhir 1439 H (5 March 2018)

Riyadh, Saudi Arabia



**Mulkia IPO Fund**  
**Balance Sheet**  
**As at 31 December 2017**

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	<u>Note</u>	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
<b><u>Assets</u></b>			
Cash at Banks		4,606,896	20,756,859
Trading Investments	4	10,824,186	37,937,428
Prepayments		25,734	22,334
<b>Total Assets</b>		<b>15,456,816</b>	<b>58,716,621</b>
<b><u>Liabilities</u></b>			
Fees Payables	6	71,974	264,504
Accrued expenses		15,000	20,000
<b>Total Liabilities</b>		<b>86,974</b>	<b>284,504</b>
<b>Net assets</b>		<b>15,369,842</b>	<b>58,432,117</b>
Units in issue		1,772,881	5,827,341
Per unit value		8.67	10.03

The accompanying notes (1) to (8) form an integral part of these financial statements

**Mulkia IPO Fund**  
**Statement of operations**  
**For the year ended 31 December 2017**

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	<u>Note</u>	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
<b><u>Investment income</u></b>			
Trading losses, Net	5	(4,502,116)	(2,180,720)
Dividends income		<u>370,515</u>	<u>598,721</u>
		(4,131,601)	(1,581,999)
<b><u>Expenses</u></b>			
Managements fees	6	(565,933)	(938,545)
Custodian fees	6	(94,322)	(156,424)
Other administrative expenses		<u>(130,782)</u>	<u>(128,923)</u>
<b>Total Expenses</b>		<u>(791,037)</u>	<u>(1,223,892)</u>
<b>Net Loss from Operations</b>		<u>(4,922,638)</u>	<u>(2,805,891)</u>

The accompanying notes (1) to (8) form an integral part of these financial statements

**Mulkia IPO Fund**  
**Statement of Cash flows**  
**For the year ended 31 December 2017**

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	<u>2017</u> SR	<u>2016</u> SR
<b>Operating activities</b>		
Net Loss from operations	(4,922,638)	(2,805,891)
<b>Adjustments to reconcile net (loss) income from operations with net cash from (used in) operating activities:</b>		
Unrealized losses / (gains) on trading investments	<u>1,029,504</u>	<u>(868,562)</u>
	(3,893,134)	(3,674,453)
<b>Change in operating assets and liabilities</b>		
Trading investments	26,083,738	20,843,434
Prepayments	(3,400)	(130)
Fees Payables	(192,530)	(351,726)
Accrued expenses	<u>(5,000)</u>	<u>-</u>
<b>Net cash from operating activities</b>	<u>21,989,674</u>	<u>16,817,125</u>
<b>Financing Activities</b>		
Proceeds from sale of units	51,188	16,065,000
Value of units redeemed	<u>(38,190,825)</u>	<u>(32,083,513)</u>
<b>Net cash used in financing activities</b>	<u>(38,139,637)</u>	<u>(16,018,513)</u>
<b>Net (decrease) increase in cash at banks</b>	(16,149,963)	798,612
Cash at banks at the beginning of the year	<u>20,756,859</u>	<u>19,958,247</u>
<b>Cash at banks at the end of the year</b>	<u><u>4,606,896</u></u>	<u><u>20,756,859</u></u>

The accompanying notes (1) to (8) form an integral part of these financial statements



**Mulkia IPO Fund**  
**Statement of Changes in Net Assets**  
**For the year ended 31 December 2017**

	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
<b>Net assets at the beginning of the year</b>	<u>58,432,117</u>	<u>77,256,521</u>
<b>Net loss from operations</b>	<u>(4,922,638)</u>	<u>(2,805,891)</u>
<b>Change from units transactions</b>		
Proceeds from sale of units	51,188	16,065,000
Value of units redeemed	<u>(38,190,825)</u>	<u>(32,083,513)</u>
Net change from units transactions	<u>(38,139,637)</u>	<u>(16,018,513)</u>
<b>Net assets at the end of the year</b>	<u>15,369,842</u>	<u>58,432,117</u>

**Units Transactions**

Transactions in units are summarized as follows:

	<u>2017</u> <u>Units</u>	<u>2016</u> <u>Units</u>
Units at the beginning of the year	5,827,341	7,504,557
Units sold	5,227	1,543,832
Units redeemed	<u>(4,059,687)</u>	<u>(3,221,048)</u>
Net decrease in units	<u>(4,054,460)</u>	<u>(1,677,216)</u>
<b>Units at the end of the year</b>	<u>1,772,881</u>	<u>5,827,341</u>

The accompanying notes (1) to (8) form an integral part of these financial statements

**Mulkia IPO Fund**  
**Notes to the financial statements**  
**For the year ended 31 December 2017**

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**1- Fund Activities**

Mulkia IPO Fund (the Fund) is an open-ended fund created by an agreement between Mulkia Investment Company (the Fund Manager) and investors (unit holders in the fund). The objective of the Fund is to achieve growth in the capital in medium and long term, by investing in the book building of initial public offerings (IPOs) in Saudi Stock Exchange and by investing in the shares of the companies which have been listed for less than three (3) years in the Saudi stock exchange in accordance to the Sharia guidelines, and to achieve return higher than the performance of Benchmark Index (Ideal Ratings Saudi IPO Legitimacy).

The Fund was approved on 8 Ramadhan 1435 (corresponding to 6 July 2014) as per approval from the Capital Market Authority and commenced its operations on 12 August 2014.

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

The Loss for fund's unit since the inception amounted to (1.33) S.R per unit.

**2- Regulating authority**

The Fund is governed by the Amended Investment Fund Regulations (the regulations) issued by CMA on 16 Sha'ban 1437 H (corresponding to 23 May 2016) detailing requirements for all funds operating within the Kingdom of Saudi Arabia.

**3- Significant accounting policies**

The financial statements have been prepared in accordance with accounting standards issued by Saudi Organization for Certified Public Accountants (SOCPA).

The significant accounting policies adopted are as follows:

**Accounting convention**

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of trading investments.

**Revenue recognition**

- **Dividend income**

Dividend income is recognized when declared (when the Fund's right to receive the dividend is established).

- **Trading income**

Trading income includes unrealized gains and losses from changes in fair value, realized gains and losses from sale of trading investments. Realized gains and losses on trading investments sold are determined on a weighted average cost basis.

**Mulkia IPO Fund**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2017**

**3- Significant accounting policies (continued)**

**Investment valuation**

Investments which are purchased for trading purposes are valued at their market price as at the valuation date. Investments in mutual funds are valued on basis of net asset values published by the fund manager. Unrealized gains and losses on the revaluation of investments and realized gains and losses on the disposal of investments are recognized in the statement of operations.

Investment in open ended funds which are purchased for trading purposes are valued at their net asset value (unit price), which are published on Saudi stock exchange (Tadawul), as at the valuation date.

**Investment transactions**

Investments transactions are accounted for as of the trade date.

**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 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 the balance sheet 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 statement of operations.

**Expenses**

Expenses are recognized on an accrual basis. The management fee and custody fee, payable quarterly in arrears, is calculated and accrued at each working day based on the fund's net assets value.

**4- Trading Investments**

The composition of the trading investments portfolio on the balance sheet date is summarized as follows:

As at 31 December 2017				
	% of Market Value	Cost SR	Market Value SR	Unrealized (Loss) gain SR
<b>A: Equity investments</b>				
Capital Goods	11%	1,252,915	1,207,058	(45,857)
Transportation	19%	2,595,925	2,082,447	(513,478)
Consumer Services	23%	3,158,061	2,476,925	(681,136)
Health Care	15%	1,503,143	1,587,524	84,381
	<u>68%</u>	<u>8,510,044</u>	<u>7,353,954</u>	<u>(1,156,090)</u>
<b>B: Funds</b>				
Open ended Murabaha funds	29%	2,959,327	3,100,632	141,305
Real-Estate funds	3%	384,319	369,600	(14,719)
	<u>32%</u>	<u>3,343,646</u>	<u>3,470,232</u>	<u>126,586</u>
Total Investments	<u>100%</u>	<u>11,853,690</u>	<u>10,824,186</u>	<u>(1,029,504)</u>

The percentage of the total trading investments from the net assets of the Fund as at 31 December 2017 was 70.42%.

**Mulkia IPO Fund**  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2017**

**5- Trading Losses, Net**

	2017 SR	2016 SR
Realized losses from sale of trading investments, net	<u>(3,472,612)</u>	(3,049,282)
Unrealized loss / Gain on trading investments	<u>(1,029,504)</u>	868,562
	<u><b>(4,502,116)</b></u>	<u><b>(2,180,720)</b></u>

**6- Transactions with related parties**

Significant related party transactions during the year and balances arising therefrom are described as follows:

<u>Related Party</u>	<u>Nature of transactions</u>	<u>Amount of transactions for the year ended 31 December 2017 SR</u>	<u>Balances at 31 December 2017 SR</u>	<u>Balances at 31 December 2016 SR</u>
Mulkia Investment Company	Management fees	565,933	61,692	226,718
	Custody fees	94,322	10,282	37,786
			<u>71,974</u>	<u>264,504</u>

The Fund pays a management fee calculated at an annual rate of 1.5% of the net asset value at the end of each working day and is paid after end of each year's quarter.

Additionally, the Fund Manager also charges a custodian fee calculated at an annual rate of 0.25% of the net asset value, calculated daily and paid after end of each year's quarter by the fund. Expenses paid by the Fund Manager on behalf of the Fund are reimbursed by the Fund. The management fee and custodian fee are charged according to the fund's terms and condition.

Trade transactions on the Saudi stock exchange are executed through the Fund Manager.

The unit holders' account at 31 December 2017 included 449,937 units held by the Fund Manager and 12,014 units held by the employees (and their dependents) of the fund manager (2016: 24,289 units)

**7- Last valuation day**

The last valuation day was 31 December 2017 (2016: 29 December 2016)

**8- General**

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