

**MULKIA GULF REAL ESTATE REIT FUND  
CLOSED PUBLIC TRADED LISTED REAL ESTATE INVESTMENT FUND  
(MANAGED BY MULKIA INVESTMENT COMPANY)  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019  
AND INDEPENDENT AUDITOR'S REPORT**

**MULKIA GULF REAL ESTATE REIT FUND**  
(MANAGED BY MULKIA INVESTMENT COMPANY)

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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<b>INDEX</b>	<b>PAGE</b>
Independent Auditor's Report	-
Statement of financial position	3
Statement of profit or loss and other comprehensive income	4
Statement of changes in net assets	5
Statement of cash flows	6
Notes to the financial statements	7 – 16

### INDEPENDENT AUDITOR'S REPORT

#### To the Unitholders of Mulkia Gulf Real Estate REIT Fund

(Closed public traded listed real estate investment fund)

#### Opinion

We have audited the financial statements of Mulkia Gulf Real Estate REIT Fund ("the Fund"), managed by Mulkia investment company ("Fund Manager"), which comprise the statement of financial position as at 31 December 2019, and the statements of profit or loss and other comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and the notes accompanying 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 Gulf Real Estate REIT Fund as of 31 December 2019, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants (SOCPA).

#### Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing that endorsed in the Kingdom of Saudi Arabia. Our responsibilities under these 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 the professional code of conduct and ethics that are endorsed Kingdom of Saudi Arabia that are relevant to our audit of the fund's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. 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 (KAM) are defined as "Those matters that, in our professional judgment, were of most significance in the 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. Below is an explanation of each key audit matters how to address it:

Key Audit Matter	How we addressed the matter during our audit
<b>Investment properties</b> The net book value of investment properties in the Fund amounted to SAR 770 million as of 31 December 2019. Investment properties are measured at cost, less accumulated depreciation and any impairment losses (if any). The fair value of investment properties is determined for the purposes of disclosing the fair value with its impact on net assets value per unit and to recognize impairment (if any). Valuations are performed, semi-annually, by two independent valuers, licensed by the Saudi Authority for Accredited Valuers. This matter was considered as a key audit matter, as the valuation requires a material judgment regarding the appropriateness of the methodology applied. Inaccurate inputs to this judgment may lead to material misrepresentations in the disclosures of the financial statements.	We have performed the following procedures regarding investment properties: <ul style="list-style-type: none"> <li>• We evaluated the competency and eligibility of the external valuers who performed the valuation and their independence from the Fund.</li> <li>• We evaluated accuracy of the inputs used by the independent valuers.</li> <li>• We verified the final valuation reports and matched the average fair value reported by the valuers with the financial records of the Fund.</li> <li>• We evaluated the appropriateness of disclosures related to the investment properties of the Fund in Note (8) to the financial statements.</li> </ul>

### **Responsibilities of Fund Manager and Those Charged with Governance for the Financial Statements**

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants and Real Estate Investment Funds Regulations, the terms and conditions of the Fund, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Fund Manager is responsible for assessing the Fund'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 Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance i.e. board of directors of the Fund, 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 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 International Standards on Auditing that are 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 part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment 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 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control of the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the fund manager.
- Conclude on the appropriateness of fund 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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosure is inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and 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 controls that we identify during our audit.

We also provided 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.

Allied Accountants  
Dr Abdelgadir Bannaga & Partners Co.



Mohammed Al Nader  
License No. 435  
Riyadh, Saudi Arabia  
6 Shaaban 1441 H (March 30, 2020)



**MULKIA GULF REAL ESTATE REIT FUND**  
(MANAGED BY MULKIA INVESTMENT COMPANY)

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2019**

		<b>31 December 2019 SAR</b>	<b>31 December 2018 SAR</b>
	<b>Note</b>		
<b>Assets</b>			
Cash and cash equivalent	7	69,685,530	26,010,030
Investment properties, net	8	770,003,303	714,122,755
Account receivable from Lease, net	9	24,690,235	13,712,136
Accrued revenue		5,042,226	2,614,858
Prepaid expenses and other debit balances		2,631,045	1,134,689
<b>Total assets</b>		<b>872,052,339</b>	<b>757,594,468</b>
<b>Liabilities</b>			
Long-term loan	10	258,038,666	149,038,515
Revenue received in advance	11	18,309,483	12,859,481
Due to a related party	12	14,561,171	5,322,910
Fees payable		77,783	152,283
Accrued expenses and other credit balances	13	7,187,054	4,089,296
<b>Total liabilities</b>		<b>298,174,157</b>	<b>171,462,485</b>
<b>Equity attributable to unitholders</b>			
<b>Net assets attributable to unitholders</b>		<b>573,878,182</b>	<b>586,131,983</b>
Units in issue (numbers)		<b>60,000,000</b>	<b>60,000,000</b>
Net carrying value of assets - per unit		<b>9.56</b>	<b>9.77</b>
Net fair value of assets - per unit	14	<b>9.90</b>	<b>9.87</b>

Mohamed Abdullatif Nawas  
Operations Manager



Muneera Hijab AlDossary  
CEO - Fund Manager



Sultan Mohammed Alhudaithi  
Chairman of the Fund



The accompanying notes (1) to (22) form an integral part of these financial statements

**MULKIA GULF REAL ESTATE REIT FUND**  
(MANAGED BY MULKIA INVESTMENT COMPANY)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019**

		<b>For the year ended 31 December 2019</b>	<b>For the year ended 31 December 2018</b>
	<b>Note</b>	<b>SAR</b>	<b>SAR</b>
<b>Revenues</b>			
Leases revenue of investment properties		<b>58,104,051</b>	55,950,060
Other revenue	15	<b>907,128</b>	43,669
<b>Total revenues</b>		<b>59,011,179</b>	55,993,729
<b>Expenses</b>			
Fund management fees	12	<b>(7,955,641)</b>	(7,094,555)
Custodial fees		<b>(291,723)</b>	(278,794)
Provision for expected credit loss	9	<b>(381,938)</b>	-
Depreciation of investment properties	8	<b>(8,357,293)</b>	(7,541,897)
Finance charges	10	<b>(11,694,055)</b>	(6,078,524)
Acquisition fees	12	<b>(500,000)</b>	(950,000)
Finance structure fees	12	<b>(325,800)</b>	(453,000)
Other administrative expenses	16	<b>(1,251,744)</b>	(1,108,343)
<b>Total expenses</b>		<b>(30,758,194)</b>	(23,505,113)
<b>Net profit from operations</b>		<b>28,252,985</b>	32,488,616
Reverse/ (impairment) of impairment of investment properties	8	<b>293,214</b>	(15,215,004)
<b>Net profit for the year</b>		<b>28,546,199</b>	17,273,612
Other comprehensive income items		-	-
<b>Total comprehensive income for the year</b>		<b>28,546,199</b>	17,273,612

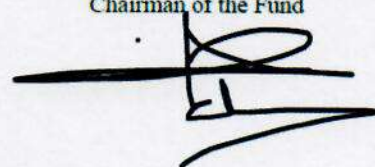
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**MULKIA GULF REAL ESTATE REIT FUND**  
(MANAGED BY MULKIA INVESTMENT COMPANY)

**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	<b>For the year ended 31 December 2019</b>	<b>For the year ended 31 December 2018</b>
	<b>SAR</b>	<b>SAR</b>
<b>Net assets value, beginning of the year</b>	<b>586,131,983</b>	605,758,371
<b>Net profit for the year</b>	<b>28,546,199</b>	17,273,612
Dividends during the year	<b>(40,800,000)</b>	(36,900,000)
<b>Net assets, end of the year</b>	<b>573,878,182</b>	586,131,983

**Unit transactions**

Below is a summary of unit transactions for the year:

	<b>For the year ended 31 December 2019</b>	<b>For the year ended 31 December 2018</b>
	<b>Units</b>	<b>Units</b>
Units at beginning of the year	<b>60,000,000</b>	60,000,000
Units at year-end	<b>60,000,000</b>	60,000,000

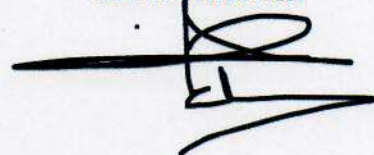
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**MULKIA GULF REAL ESTATE REIT FUND**  
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**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	For the year ended 31 December 2019 SAR	For the year ended 31 December 2018 SAR
<b>Cash flows from operating activities</b>		
Net profit for the year	28,546,199	17,273,612
<b>Adjustments to reconcile net profit for the year with net cash available from operating activities</b>		
Depreciation of investment properties	8,357,293	7,541,897
Finance charges	11,694,055	6,078,524
Made of provision for expected credit loss	381,938	-
(Reverse)/ impairment of investment properties	(293,214)	15,215,004
Murabaha deposits revenue	(878,742)	-
	<u>47,807,529</u>	<u>46,109,037</u>
<b>The changes in operating assets and liabilities:</b>		
Account receivable from Lease	(16,716,429)	(12,097,921)
Accrued revenue	(2,427,368)	(2,392,247)
Prepaid expenses and other debit balances	(1,471,756)	(1,079,801)
Revenue received in advance	5,450,002	1,632,189
Due to a related party	9,238,261	4,392,781
Fees payable	(74,500)	108,147
Accrued expenses and other credit balances	(3,422,527)	(145,875)
Finance charges repaid	(4,773,619)	(2,069,028)
<b>Net cash available from operating activities</b>	<u>33,609,593</u>	<u>34,457,282</u>
<b>Cash flows from investing activities</b>		
Investment properties	(58,588,235)	(138,746,389)
Earned Murabaha deposits revenue	854,142	-
<b>Net cash used in investing activities</b>	<u>(57,734,093)</u>	<u>(138,746,389)</u>
<b>Cash flows from financing activities</b>		
Long-term loan	108,600,000	151,000,000
Cash dividends	(40,800,000)	(36,900,000)
Repayment of deferred financing cost	-	(2,100,000)
<b>Net cash available from financing activities</b>	<u>67,800,000</u>	<u>112,000,000</u>
<b>Net increase in cash and cash equivalent</b>	<u>43,675,500</u>	<u>7,710,893</u>
Cash and cash equivalent at the beginning of the year	26,010,030	18,299,137
<b>Cash and cash equivalent at end of the year</b>	<u>69,685,530</u>	<u>26,010,030</u>
<b>Non-cash transactions</b>		
Additions to investment properties against lease receivables	<u>5,356,392</u>	<u>-</u>

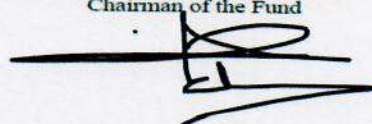
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The accompanying notes (1) to (22) form an integral part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**1- THE FUND AND ITS ACTIVITIES**

Mulkia Gulf Real Estate REIT Fund ("the Fund") is a Sharia compliant closed public traded listed real estate investment fund. The main objective of the Fund is to acquire pre developed real estate properties in order to obtain regular and frequent rental income, or under construction no more than 25% of the total value of the fund's assets, and distribute a minimum of 90% of the Fund's net income to unitholders during the lifetime of the Fund at least once annually within 90 days after financial year end which ends on December 31.

The Fund 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.

The address of the Fund Manager is:

Mulkia Investment Company, Prince Muhammad Bin Abdulaziz Road - Al-Olaya area, P.O. Box 52775 - Riyadh 11573, Kingdom of Saudi Arabia.

**2- REGULATING AUTHORITY**

The Fund is governed by Real estate Investment Funds Regulations (the "Regulations"), Real Estate Investment Traded Funds Instructions, published by the Capital Market Authority on 19 Jumada Ii 1427H (corresponding to 15 July 2006) and 23 Muharram 1438H (corresponding to 24 October 2016) respectively, which stipulates Regulations and instructions apply to all real estate investment funds operating in the Kingdom of Saudi Arabia.

**3- ACCOUNTING STANDARDS APPLIED AND BASIS OF MEASUREMENT**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

Based on the circular of the Capital Market Authority (CMA) dated 16 October 2016, all Funds must apply the cost model to measure the property, plant, equipment, investment property, and intangible assets upon adopting the International Financial Reporting Standards (IFRS) for three years period starting from the IFRS adopting date.

On 31 December 2019, the CMA reviewed the appropriateness to continuing using the cost model, permitting the use of a fair value model or a revaluation option and resolved the following:

- All listed companies are obliged to apply the cost model to measure the properties (IFRS 16) and investment property (IAS 40) in the financial statements prepared for the fiscal periods during the fiscal years starting before 2022.
- Allowing listed companies to choose the Fair Value Model for investment property after initial measurement or the Revaluation Model to measure property (IAS 16) after initial recognition in the financial statements prepared for financial periods within fiscal years, which start before the calendar year 2022.

**4- CHANGES IN SIGNIFICANT ACCOUNTING POLICIES**

Except for what has been mentioned below, the accounting policies applied to these financial statements are the same as those applied to the financial statements for the previous year ended 31 December 2018.

**IFRS (16) "Leases"**

The Fund has adopted IFRS (16) with the cumulative effect of initially recognizing the standard. The Fund will select to apply the standard on contracts that were previously identified as leases by IAS (17) and IFRIC (4). The Fund will select to apply the proposed exemptions on lease contracts in which the lease term expires within 12 months from the date of the initial application, and low value asset leases. The Fund performed an evaluation of IFRS (16) impact and a comparison with IAS (17) and IFRIC (4), and concluded that the impact is not material in the financial statements of the Fund as a whole as the Fund is a lessor, it does not have any lease contract and therefore there was no financial impact on the financial statements as a result of application of IFRS (16) "Leases".

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2019

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**5- STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2020 and earlier application is permitted; however, the Fund has not early adopted them in preparing these Financial Statements.

**Amendments to IFRS 3 – definition of a business**

This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

**Amendments to IAS 1 and IAS 8 on the definition of material**

These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

- 1- Use a consistent definition of materiality throughout IFRS and the Conceptual Framework for Financial Reporting;
- 2- Clarify the explanation of the definition of material; and incorporate some of the guidance in IAS 1 about immaterial information.

**Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform**

These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally, cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the statement of Profit or Loss.

**6- SIGNIFICANT ACCOUNTING POLICIES**

Below are significant accounting policies applied:

**Accounting convention**

The financial statements are prepared under accrual basis of accounting, going concern basis.

**Use of estimates**

The preparation of the financial statements in accordance with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia requires from the Fund Manager the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses.

These estimates and judgments are based on management's best knowledge of current events and actions and other factors which form a base for estimating the carrying amount of assets and liabilities which can not be easily determined from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Adjustments to accounting estimates are recognized prospectively.

**Cash and cash equivalent**

Cash and cash equivalent comprise cash on hand and bank balances, term deposits and highly-liquid investments with original maturity of three-months or less from the acquisition date.

**Properties under development**

Properties acquired, built or under construction and development are classified as properties under development. Cost of properties under development includes the cost of land and other development costs. The property will be considered ready upon completion and delivery of all activities related to the property, including infrastructure and facilities of whole project. The Fund Manager reviews the carrying amounts of properties under development at the date of each statement of financial position. Impairment losses, if any, are recognized if the carrying amount of the asset exceeded its net realizable value.

**Investment properties**

Investment properties are recognized at cost. investment properties represent buildings and lands utilized by leasing, less accumulated depreciation and any impairment losses, if any. Lands are not depreciated. Buildings are depreciated on straight-line basis over their useful lives which are as follows:

<u>Description</u>	<u>Years</u>
Buildings	40 years

The fair value of investment properties is disclosed in the notes to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**6- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Instruments**

Financial assets and financial liabilities are recognized when a Fund becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in statement of profit or loss.

**First: Financial assets**

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'financial assets at fair value through other comprehensive income, and financial assets at amortized cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

**A) Financial assets at fair value through statement of profit & loss**

Financial assets are classified as held for trading, or it is designated at FVTPL by the Fund.

A financial asset is classified as held for trading if:

- it has been acquired principally for selling it in the near term.
- On initial recognition it is part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking.
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in statement of profit or loss.

Dividends or interest earned on the financial asset are recognized in statement of profit or loss.

**B) Financial assets acquired at amortized cost**

Receivables including trade and other receivables, bank balances and cash are measured at amortized cost using the effective interest method, less any impairment loss which is recognized in statement of profit or loss.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

The Fund applies the simplified approach in the IFRS 9 to measure expected credit losses and makes provision for life-time expected credit losses.

**Second: Financial liabilities**

Financial liabilities (including borrowings and trade payables) are initially and subsequently measured at amortized cost using the effective interest method.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in statement of profit or loss.

**- Effective interest method**

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**6- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment in the value of assets**

Impairment losses in the value of tangible assets, if any, are recognized in the statement of profit or loss if the carrying amount of the asset exceeded the When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Accounts payable and accruals**

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

**Zakat and Income tax**

Zakat and income tax are obligation of the Unitholders and is not provided for in these accompanying financial statements.

**Provisions**

Provisions are recognized when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that the Fund will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**Net Assets Value**

Net assets value per unit, as disclosed in statement of net assets is calculated by dividing the net assets of the Fund by the numbers of units in issue as at the year end.

**Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to settle a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

The Fund shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

**Revenue Recognition**

Revenue from sales of investments properties is recognized when significant risks and rewards of ownership are transferred to the buyer under a legal title deed or by a binding legal declaration, when the amount of revenue can be collected and measured reliably.

Rental income from operating leases of investment properties is recognized on a straight-line basis over the term of the relevant lease or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Other revenue is recognized when realized.

**Foreign Currencies**

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the combined statement of financial position date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**6- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Expenses**

Expenses are recognized on the accrual basis and the Fund Manager fees are charged at an agreed rate with the Fund Manager. These expenses are calculated on a biannual basis and these expenses are charged to the statement of profit or loss.

**Borrowing costs**

Borrowing costs directly attributable to the construction of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Otherwise, these costs are charged to the statement of profit or loss.

**7-CASH AND CASH EQUIVALENT**

	31 December 2019	31 December 2018
	SAR	SAR
Bank Balances	60,685,530	26,010,030
Murabaha deposits	9,000,000	-
	<u>69,685,530</u>	<u>26,010,030</u>

**8-INVESTMENT PROPERTIES, NET**

The following are the components of investments properties at historical cost:

	Building on lands SAR	Buildings SAR	Projects under construction SAR	Total SAR
<b>Cost</b>				
As at 1 January 2019	391,928,701	330,319,660	15,562,500	737,810,861
Additions during the year	15,614,905	48,329,722	-	63,944,627
As at 31 December 2019	407,543,606	378,649,382	15,562,500	801,755,488
<b>Accumulated depreciation</b>				
As at 1 January 2019	-	8,473,102	-	8,473,102
Charged to the year	-	8,357,293	-	8,357,293
As at 31 December 2019	-	16,830,395	-	16,830,395

Impairment of investment properties as of 31 December 2019	(10,385,189)	(3,957,328)	(579,273)	(14,921,790)
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**Net carrying amount**

As at 31 December 2019	397,158,417	357,861,659	14,983,227	770,003,303
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	Building on lands SAR	Buildings SAR	Projects under construction SAR	Total SAR
<b>Cost</b>				
As at 1 January 2018	369,735,437	229,329,035	-	599,064,472
Additions during the year	22,193,264	100,990,625	15,562,500	138,746,389
As at 31 December 2018	391,928,701	330,319,660	15,562,500	737,810,861
<b>Accumulated depreciation</b>				
As at 1 January 2018	-	931,205	-	931,205
Charged to the year	-	7,541,897	-	7,541,897
As at 31 December 2018	-	8,473,102	-	8,473,102

Impairment of impairment of investment properties	(9,208,317)	(5,013,687)	(993,000)	(15,215,004)
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**Net carrying amount**

As at 31 December 2018	382,720,384	316,832,871	14,569,500	714,122,755
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**8 - INVESTMENT PROPERTIES, NET (CONTINUED)**

Investment properties are recorded at historical cost. The fair value of the investment properties has been determined based on the average of two valuations of market value made by independent valuation experts (Note 14). These values are based on estimates by independent valuers due to uncertainty of estimates.

Investment properties are as follows:

- Al-Yasmeen Building: It is a residential building in Al-Yasmeen district, north of Riyadh.
- Teqnia Industrial Commercial Complex: It is an industrial and commercial complex consisting of five auto maintenance centers, two auto showrooms and a spare parts center located in the southeast of Riyadh.
- Dinar Commercial Building: It is a commercial building in the Al-Zahra district, Jeddah.
- West Avenue Building: It is a commercial building in Al-Faisaliah district, Dammam.
- Vivienda Complex: It is hotel villas complex located in Prince Faisal bin Fahd bin Abdulaziz Road in, Al-Hada district, Riyadh.
- Obhur Building: It is a restaurant building in Obhur Al Shamaliyah district, Jeddah.
- Khamis Mushait Building: It is a restaurant in Khamis Mushait.
- The First Room Hotel Apartments building: It is a building licensed as a furnished "3-star" accommodation facility in A Namudhajiya District in Riyadh.
- Al-Sheraa district project: It is a commercial building project in Al-Sheraa district, Jeddah. It is included in under construction projects. Work is still ongoing to deliver public facilities to the property and complete necessary licenses.

During December 2019, the Fund evaluated the investment properties which resulted in reversal of impairment losses amounting to SAR 293,214 during the year ended 31 December 2019 (31 December 2018: impairment losses amounting to SAR 15,215,004).

The title deeds of the properties are registered in the name of Tamdeen Real Estate Company, a company established for the purpose of maintaining and recording the Fund's assets, according to CMA resolution No. 1/6/4902/17 dated 28 September 2017. All title deeds of properties invested by the Fund have been mortgaged in favor of Al Bilad Real Estate Company (a subsidiary of Bank Al Bilad) with a minimum coverage ratio of 175% of the total facilities as a guarantee of the financing granted to the Fund (Note 10).

**9- ACCOUNT RECEIVABLE FROM LEASE, NET**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>SAR</b>	<b>SAR</b>
Lease receivables		
Less:	<b>25,072,173</b>	13,712,136
Provision for expected credit loss	<b>(381,938)</b>	-
	<b>24,690,235</b>	13,712,136

The movement in the expected credit losses as of 31 December is as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>SAR</b>	<b>SAR</b>
Balance, beginning of the year	-	-
Charged during year	<b>381,938</b>	-
<b>Year-end balance</b>	<b>381,938</b>	-

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**10- LONG - TERM LOAN**

In 2018, the Fund obtained a credit facility amounting to SAR 300,000,000 from Al Bilad Bank to finance the activities of the Fund. The facility is mortgaged against the title deeds properties invested by the Fund which are registered in the name of Al Bilad Real Estate Company (Note 8) with a minimum coverage ratio of 175% of the total facility. On 19 November 2019, the credit facility was increased to SAR 600,000,000. As of 31 December 2019, the utilized portion of the facility amounted to SAR 259,600,000 (31 December 2018: SAR 151,000,000). The facility must repaid in one payment after five years from the date of the first withdrawal. The Fund will be charged biannual finance charges.

The movement in financing facility is as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>SAR</b>	<b>SAR</b>
Balance at the beginning of the year	<b>151,000,000</b>	-
Withdrawn during the year	<b>108,600,000</b>	151,000,000
	<b>259,600,000</b>	151,000,000
Less:		
Deferred financing cost	<b>(1,561,334)</b>	(1,961,485)
	<b>258,038,666</b>	149,038,515

**11- REVENUE RECEIVED IN ADVANCE**

Revenue received in advance represents investment properties lease revenue and does not belong to the year ended 31 December 2019 this revenue amounted to SAR 18,309,483 as at 31 December 2019 (31 December 2018: SAR 12,859,481).

**12- RELATED-PARTY TRANSACTIONS**

Related parties to the Fund comprise Unitholders, Fund Manager, members of board of directors and other funds managed by the Fund Manager. In the ordinary course of business, the Fund transacts with related parties. Transactions with related parties are subject to limitations set forth in the bylaws issued by the Capital Market Authority. All transactions with the related parties are approved by the Fund's Board of Directors, 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 14)

A) Below are the significant transactions with the related party during the year:

<b>Related party</b>	<b>Nature of transaction</b>	<b>Size of transaction</b>	
		<b>2019</b>	<b>2018</b>
		<b>SAR</b>	<b>SAR</b>
Mulkia Investment	Management fees	<b>7,955,641</b>	7,094,555
	Acquisition fees	<b>500,000</b>	950,000
	Finance structure fees	<b>325,800</b>	453,000
	Expenses paid on behalf	<b>26,537</b>	77,474
		<b>26,537</b>	77,474

B) Below are balances due to a related party as of 31 December:

<b>Related party</b>	<b>Nature of transaction</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
		<b>SAR</b>	<b>SAR</b>
Mulkia Investment	Management fees	<b>12,195,860</b>	3,842,436
	Acquisition fees	<b>1,450,000</b>	950,000
	Finance structure fees	<b>778,800</b>	453,000
	Expenses paid on behalf	<b>136,511</b>	77,474
		<b>14,561,171</b>	5,322,910

As of 31 December 2019, Unitholders account include 900,000 units owned by the Fund Manager (31 December 2018: 1,500,000 units).

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**13- ACCRUED EXPENSES AND OTHER CREDIT BALANCES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>SAR</b>	<b>SAR</b>
Finance charges due	<b>6,920,436</b>	4,009,496
Accrued expenses	<b>226,618</b>	79,800
Others	<b>40,000</b>	-
	<b>7,187,054</b>	4,089,296

**14- THE IMPACT ON NET ASSETS IF INVESTMENTS PROPERTIES MEASURED AT FAIR VALUE**

According to article 22 of Real Estate Investment Funds Regulations issued by the Capital Market Authority in the Kingdom of Saudi Arabia, the Fund Manager is responsible for performing fair valuation to fund assets based on an evaluation prepared by two evaluators. As stated in the Fund's terms and conditions, the net assets value and management fees are calculated based on the market value obtained. According to IFRS endorsed in Saudi Arabia, investment properties are stated at the lower of cost or net realizable value in these financial statements.

The fair value of investment properties is determined based on evaluation performed by two evaluators: Valie and Partner for Real Estate Valuation and Evaluation (An independent valuer accredited by the Saudi Authority for Accredited Valuers), license No. 1210001114 and Estnad real estate Valuation office, license No. 1210000037 (An independent valuer accredited by the Saudi Authority for Accredited Valuers). As of 31 December 2019, the average valuation of investment properties amounted to SAR 790.47 million (31 December 2018: SAR 720.34 million).

- 1- Below is a statement of the unrealized gains from properties that were identified based on real estate valuation processes (fair value) as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>SAR</b>	<b>SAR</b>
Fair value of investment properties	<b>790,472,306</b>	720,337,040
Net carrying amount of investment properties (note 8)	<b>(770,003,303)</b>	(714,122,755)
Unrealized gains based on real estate valuation	<b>20,469,003</b>	6,214,285
Units in issue	<b>60,000,000</b>	60,000,000
<b>Unit share in unrealized gains based on real estate valuation</b>	<b>0.34</b>	0.10

- 2- Below is analysis of net assets using fair value of properties:

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>SAR</b>	<b>SAR</b>
Net assets value at cost presented in these financial statements	<b>573,878,182</b>	586,131,983
Unrealized gains based on real estate valuation (Note 14-1)	<b>20,469,003</b>	6,214,285
<b>Net assets at fair value</b>	<b>594,347,185</b>	592,346,268

- 3- Below is statement of net assets per units using fair value of properties:

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>SAR</b>	<b>SAR</b>
Net assets value per unit at cost presented in these financial statements	<b>9.56</b>	9.77
Impact on net assets value per unit as a result of unrealized gains determined based on real estate valuation (note 14-1)	<b>0.34</b>	0.10
<b>Net assets value per unit at fair value</b>	<b>9.90</b>	9.87

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**15- OTHER REVENUES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>SAR</b>	<b>SAR</b>
Murabaha deposits revenue	<b>878,742</b>	-
Current accounts revenue	<b>28,386</b>	13,669
Compensations	-	30,000
	<b>907,128</b>	<b>43,669</b>

**16- OTHER ADMINISTRATIVE EXPENSES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>SAR</b>	<b>SAR</b>
Edaa fees	<b>413,000</b>	400,000
Investment properties valuation expenses	<b>273,450</b>	170,270
Insurance expenses	<b>214,225</b>	43,888
Tadawul fees	<b>140,185</b>	162,429
Other	<b>210,884</b>	331,756
	<b>1,251,744</b>	<b>1,108,343</b>

**17- FAIR VALUE OF FINANCIAL INSTRUMENTS**

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. Financial instruments consist of financial assets and financial liabilities.

The Fund follows the following hierarchy to determine the fair value of investment properties and to disclose them

Level 1: Quoted prices in active markets for identical property (without adjustment or addition).

Level 2: Quoted prices in an active market for similar assets and liabilities or other valuation techniques, which are all significant inputs based on observable market data:

Level 3: Valuation techniques where significant inputs are not based on observable market data.

The valuation of the fair value of investment properties is at level 3.

**18- RISK MANAGEMENT**

**Credit risks**

It is the risk that one party may fail to discharge an obligation and will cause the other party to incur a financial loss. The Fund Manager seeks to reduce credit risk through periodic monitoring of any outstanding receivables. Cash is also deposited with a local bank with a high credit rating.

**Commission rate risk**

It is the risk that the value of a financial instrument will fluctuate due to changes in market commission rates in the market. The Fund has no significant assets or liabilities that are subject to commissions as of 31 December 2019.

**Currency risk**

It is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Fund Manager monitors the currency rate changes and believes that the impact of currency rate changes on the Fund is not significant as the Fund primarily deals in Saudi Riyal.

**Liquidity risks**

Liquidity risk difficulty the Fund may encounter in raising funds to meet commitments associated with financial instruments. Liquidity risk arises from the inability to sell a financial asset quickly at an amount approximate its fair value. The Fund Manager limits its liquidity risk by ensuring bank balances are available.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**19- LAST VALUATION DATE**

The last evaluation day of the year was 31 December 2019 (31 December 2018: 31 December 2018).).

**20- GENERAL**

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

**21- SUBSEQUENT EVENTS**

Due to the spread of coronavirus (COVID-19) in the region and in the world which is considered a pandemic causing disruption in commercial and economic activities internationally and locally in the Kingdom, the Fund Manager believes these events occurred after the reporting period and after the issuance of the financial statements, therefore, do not require any amendments.

Further, the management of Fund is unable to determine the future impact of such events on the financial statements of the Fund and its results as they are linked to decisions of the government. It is not possible to determine the extent of this crisis, and government officials will continue to monitor the situation and provide stakeholders with developments as required by the laws and regulations.

Other than the above, in the opinion of the management, there were no other significant events subsequent to 31 December 2019 that are expected to have a significant impact on these financial statements as at 31 December 2019.

**22- APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements have been approved by the board of directors of the Fund on 6 Shaaban 1441 H (March 30, 2020).