



RSM

RSM Allied Accountants
Dr. Abdelgadir Bannaga & Partners Co.

**MULKIA GULF REAL ESTATE REIT FUND
CLOSED PUBLIC TRADED LISTED REAL ESTATE INVESTMENT FUND
(MANAGED BY MULKIA INVESTMENT COMPANY)
THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020
AND INDEPENDENT AUDITOR'S LIMITED REVIEW REPORT**

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

**INTERIM FINANCIAL STATEMENTS (Un Audited) AND INDEPENDENT AUDITOR'S
LIMITED REVIEW REPORT
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020**

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Independent auditor's report on review of the Interim financial statements**To the Unitholders of Mulkia Gulf Real Estate REIT Fund****Introduction**

We have reviewed the interim statement of financial position of Mulkia Gulf Real Estate REIT Fund (the Fund) as at 30 June 2020 and the interim statements of profit or loss and other comprehensive income, interim statement of changes in net assets and interim statement of cash flows for the six-month period then ended and 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" ("IAS 34"), as 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 Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", as endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements 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, as 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, 2020 are not prepared, in all material respects, in accordance with IAS 34, "interim financial reporting" as endorsed in the Kingdom of Saudi Arabia.

Allied Accountants
Dr Abdelgadir Bannaga & Partners CompanyMohammed Bin Farhan Bin Nader
License No. 435Riyadh, Saudi Arabia
20 Dhu al-Hijjah 1441H (10 August 2020)

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

INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 JUNE 2020

		30 JUNE 2020 (Unaudited)	31 December 2019 (Audited)
	<u>Note</u>	<u>SAR</u>	<u>SAR</u>
Assets			
Cash and cash equivalent	6	17,788,182	69,685,530
Investment properties, net	7	963,029,524	770,003,303
Account receivable from lease, net	8	35,700,794	24,690,235
Accrued revenue		6,244,310	5,042,226
Prepaid expenses and other debit balances		359,383	2,631,045
Total assets		<u>1,023,122,193</u>	<u>872,052,339</u>
Liabilities			
Long-term loan	9	340,762,255	258,038,666
Revenue received in advance	10	26,098,458	18,309,483
Due to a related party	11	5,210,114	14,561,171
Fees payable		153,992	77,783
Accrued expenses and other credit balances	12	7,786,170	7,187,054
Total liabilities		<u>380,010,989</u>	<u>298,174,157</u>
Equity attributable to Unitholders			
Net assets attributable to Unitholders		<u>643,111,204</u>	<u>573,878,182</u>
Issued units (numbers)		<u>68,108,652</u>	<u>60,000,000</u>
Book value attributable to each unit		<u>9.44</u>	<u>9.56</u>
Fair value attributable to each unit	13	<u>9.73</u>	<u>9.90</u>

Mohamed Abdullatif Nawas
Operations Manager



Muneera Hijab AlDossary
CEO-Fund Manager



Sultan Mohammed Alhudaithi
Chairman of the Fund board



The accompanying notes (1) to (19) form an integral part of these financial statements.

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

INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(UNAUDITED)
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

		FOR THE SIX- MONTH PERIOD ENDED 30 JUNE 2020 (Unaudited)	FOR THE SIX- MONTH PERIOD ENDED 30 JUNE 2019 (Unaudited)
	<u>Note</u>	<u>SAR</u>	<u>SAR</u>
Revenues			
Leases revenue of investment properties		36,990,679	28,984,346
Other revenue		597,234	28,385
Total revenues		37,587,913	29,012,731
Expenses			
Fund management fees	11	(4,785,464)	(3,711,375)
Custodial fees		(106,543)	(143,839)
Depreciation of investment properties	7	(5,651,729)	(3,972,369)
Provision for expected credit losses	8	(843,938)	-
Finance charges	9	(7,732,032)	(4,402,806)
Handling fee	11	(2,015,000)	-
Finance structure fees	11	(830,000)	-
Capital structure fees	11	(806,000)	-
Other administrative expenses		(924,635)	(381,401)
Total expenses		(23,695,341)	(12,611,790)
Net profit from operations		13,892,572	16,400,941
(Impairment)/ Reverse of impairment of investment	8	(7,859,550)	3,563,480
Net profit for the period		6,033,022	19,964,421
Other comprehensive income items		-	-
Total comprehensive income for the period		6,033,022	19,964,421

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

INTERIM STATEMENT OF CHANGES IN NET ASSETS (UNAUDITED)
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

	FOR THE SIX- MONTH PERIOD ENDED 30 JUNE 2020	FOR THE SIX- MONTH PERIOD ENDED 30 JUNE 2019
	(Unaudited)	(Unaudited)
	<u>SAR</u>	<u>SAR</u>
Net assets value, at the beginning of the period	573,878,182	586,131,983
Net profit for the period	6,033,022	19,964,421
Subscriptions during the period	80,600,000	-
Dividends during the period	<u>(17,400,000)</u>	<u>(20,400,000)</u>
Net assets value, at end of the period	<u>643,111,204</u>	<u>585,696,404</u>

Unit transactions

Below is a summary of unit transactions for the period:

	FOR THE SIX- MONTH PERIOD ENDED 30 JUNE 2020	FOR THE SIX- MONTH PERIOD ENDED 30 JUNE 2019
	(Unaudited)	(Unaudited)
	<u>Units</u>	<u>Units</u>
Units at the beginning of the period	60,000,000	60,000,000
Issued units during the period	<u>8,108,652</u>	<u>-</u>
Units at end of the period	<u>68,108,652</u>	<u>60,000,000</u>

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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 2020

	FOR THE SIX- MONTH PERIOD ENDED 30 JUNE 2020 (Unaudited) SAR	FOR THE SIX- MONTH PERIOD ENDED 30 JUNE 2019 (Unaudited) SAR
Cash flows from operating activities		
Net profit for the period	6,033,022	19,964,421
Adjustments to reconcile net profit with net cash available from operating activities:		
Depreciation of investment properties	5,651,729	3,972,369
Finance charges	7,732,032	4,402,806
Provision made for expected credit losses	843,938	-
Impairment/(Reverse) of impairment of investment properties	7,859,550	(3,563,480)
Murabaha deposits revenue	(25,805)	-
	<u>28,094,466</u>	<u>24,776,116</u>
Change in operating assets and liabilities		
Account receivable from lease	(11,854,497)	(10,697,626)
Accrued revenue	(1,202,084)	(1,204,984)
Prepaid expenses and other debit balances	2,247,602	743,159
Revenue received in advance	7,788,975	-
Due to a related party	(9,351,057)	-
Fees payable	76,209	2,410,486
Accrued expenses and other credit balances	92,109	1,683,760
Finance charges repaid	(6,920,436)	(4,262,877)
Net cash available from operating activities	<u>8,971,287</u>	<u>13,448,034</u>
Cash flows from investing activities		
Investment properties	(206,537,500)	(7,338,235)
Earned Murabaha deposits revenue	49,865	-
Net cash used in investing activities	<u>(206,487,635)</u>	<u>(7,338,235)</u>
Cash flows from financing activities		
Long-term loan	83,000,000	-
Cash dividends	(17,400,000)	(20,400,000)
Earned from subscriptions	80,600,000	-
Repayment of deferred financing cost	(581,000)	-
Net cash available from / (used in) financing activities	<u>145,619,000</u>	<u>(20,400,000)</u>
Net change in cash and cash equivalent	<u>(51,897,348)</u>	<u>(14,290,201)</u>
Cash and cash equivalent at the beginning of the period	<u>69,685,530</u>	<u>26,010,030</u>
Cash and cash equivalent at end of the period	<u>17,788,182</u>	<u>11,719,829</u>

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The accompanying notes (1) to (19) form an integral part of these financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

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- BASIS OF PREPARATION OF INTERIM FINANCIAL STATEMENTS

3-1 Accounting Standards Applied

The interim financial statements have been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting” that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants.

3-2 Preparation of Interim Financial Statements

The interim financial statements have been prepared on a historical cost convention unless IFRS requires the use of another measurement basis, as indicated in the applied accounting policies (Note 5), and in accordance with the accrual principle and going concern.

The interim financial statements are presented in Saudi Riyals being the functional and presentation currency.

4- NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

No new standards were issued, however, the application of the following amendments to the current standards does not have any material financial impact on the financial statements of the Fund in the current or previous periods, and it is expected that they will not have a significant impact in future periods:

- Amendments to References to the Conceptual Framework in IFRS.
- Definition of a business (Amendments to IFRS 3).
- The definition of material (Amendments to IAS 1 and IAS 8).
- Interest rate benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

A number of new amendments for annual periods beginning on or after 1 January 2021, with early application permitted. However, the Fund did not implement the new or revised standards early in preparing these interim financial statements.

<u>Standard / Interpretation</u>	<u>Statement</u>	<u>Effective from periods beginning on or after the following date</u>
IFRS (17)	Insurance contracts	1 January 2021
IAS (1)	Classification of Liabilities as Current or Non-Current (Amendments to IAS 1))	1 January 2022

The Fund assesses the effects of the aforementioned standards, amendments and interpretations on the financial statements of the Fund.

5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies are applied by the Fund:

Use of estimates

The preparation of the interim financial statements in conformity with International Financial Reporting Standards (IFRSs) requires 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 cannot 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.

Below are estimation and judgments that have material impact on the amounts reported in the interim financial statements:

-Going Concern

The management has evaluated the ability of the Fund to continue as a going concern and believes the Fund has sufficient resources to continue its business in the near future. In addition, the management has material uncertainty related to the ability of the Fund to continue as a going concern. Therefore, the financial statements are prepared on the basis of the going concern.

-Estimation of useful lives of investment property

Management reviews the useful lives of investment property to calculate depreciation. These estimates are determined after taking into account the expected use of assets, obsolescence and damage. The management reviews the residual value and useful lives annually and changes in depreciation expenses in current and future periods, if any-

-Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or Cash Generating Unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing off the asset. The value in use calculation is based on a Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Fund is not yet committed to or significant future investments that will enhance the performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future net cash-inflows and the growth rate used for extrapolation purposes.

- Impairment of Non-derivative Financial Assets

The Fund recognizes allowances for expected credit losses ("ECL") for financial assets measured at amortized cost such as trade accounts receivable. The Fund assesses future credit losses using ECL model for financial assets measured at amortized cost. For trade accounts receivable, the Fund applies the simplified approach, which measures the loss allowance at an amount equal to lifetime expected credit losses for all trade accounts receivable since the of initial recognition. To assess the ECL, accounts receivable are grouped

based on shared risk characteristics and aging. The expected loss rates were calculated based on historical information of the Fund and adjusted to reflect the expected future results which includes future information on macroeconomic factors such as inflation and GDP growth rate. Other financial assets such as employees' receivables and bank balances have low credit risk and applying the ECL model is considered insignificant.

-Fair value measurements of financial instruments including derivative financial instruments

When the fair value of the financial assets and liabilities in the interim statement of financial position cannot be measured based on Quoted prices in active market, when IFRS require those assets or liabilities to be measured based on fair value, their fair value is determined using valuation techniques including using the present value of expected cash flows or any other techniques as stated in IFRS 13. The inputs to these techniques are taken from active markets, where possible. However, If this is not possible, a degree of judgment is required to determine the fair value and such estimates take liquidity risk, credit risk and volatility into account. Changes in the assumptions relating to these factors can affect the reported fair value of the financial instruments.

5- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Financial Instruments

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

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

5- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

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.

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.

An entity 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.

5- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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.

6-CASH AND CASH EQUIVALENT

	30 June 2020 (Unaudited) SAR	31 December 2019 (Audited) SAR
Bank balances	1,588,182	60,685,530
Murabaha deposits	16,200,000	9,000,000
	17,788,182	69,685,530

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)(CONTINUED)
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

7-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
Cost				
As at 1 January 2020	407,543,606	378,649,382	15,562,500	801,755,488
Additions during the period	96,636,294	109,901,206	-	206,537,500
AS AT 30 JUNE 2020	504,179,900	488,550,588	15,562,500	1,008,292,988
Accumulated depreciation				
As at 1 January 2020	-	16,830,395	-	16,830,395
Charged to the period	-	5,651,729	-	5,651,729
AS AT 30 JUNE 2020	-	22,482,124	-	22,482,124
Impairment of investment properties as of 30 June 2020	(14,557,831)	(8,119,236)	(104,273)	(22,781,340)
Net carrying amount				
As at 30 June 2020	489,622,069	457,949,228	15,458,227	963,029,524

	Building on lands SAR	Buildings SAR	Projects under construction SAR	Total SAR
Cost				
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
Accumulated depreciation				
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)
Net carrying amount				
As at 31 December 2019	397,158,417	357,861,659	14,983,227	770,003,303

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 13). These values are based on estimates by independent valuers due to uncertainty of estimates.

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)(CONTINUED)
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

7-INVESTMENT PROPERTIES, NET (CONTINUED)

Investment properties are as follows:

- West Avenue Building: It is a commercial building in Al-Faisaliah district, Dammam.
- Elite Mall: It is a commercial mall on King Abdul Aziz Road in Sulaymaniyah district in Riyadh.
- Vivienda Complex: It is hotel villas complex located in Prince Faisal bin Fahd bin Abdulaziz Road in, Al-Hada district, Riyadh.
- Dinar Commercial Building: It is a commercial building in the Al-Zahra district, Jeddah.
- 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.
- The First Room Hotel Apartments building: It is a building licensed as a furnished "3-star" accommodation facility in An Namudhajiya District in Riyadh.
- Al-Yasmeen Building: It is a residential building in Al-Yasmeen district, north of 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.
- Khamis Mushait Building: It is a restaurant in Khamis Mushait.
- Obhur Building: It is a restaurant building in Obhur Al Shamaliyah district, Jeddah,

During June 2020, the Fund evaluated the investment properties which resulted in impairment losses amounting to SAR 7,859,550 (For the year ended 31 December 2019 : reversal of impairment losses amounting to SAR 293,214).

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 9).

8- ACCOUNT RECEIVABLE FROM LEASE, NET

	30 June 2020 (Unaudited) SAR	31 December 2019 (Audited) SAR
Account receivable from lease	36,926,670	25,072,173
Less;		
Provision for expected credit losses	(1,225,876)	(381,938)
	35,700,794	24,690,235

The movement in the expected credit losses is as follows:

	30 June 2020 (Unaudited) SAR	31 December 2019 (Audited) SAR
Balance at beginning of the period / year	381,938	-
Provided during the period / year	843,938	381,938
Balance at end of the period / year	1,225,876	381,938

9-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 7) with a minimum coverage ratio of 175% of the total facility. On 19 November 2019, the credit facility was increased to be total facility SAR 600,000,000 SAR. The user's balance from the facility as on June 30, 2020 amounted to 342,600,000 Saudi riyals (December 31, 2019: 259,600,000 Saudi riyals), provided that the financing is repaid in one installment after five years from the date of withdrawal, and the fund bears financing fees in the form of Semi-annual..

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)(CONTINUED)
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

9- LONG - TERM LOAN (CONTINUED)

The movement in financing facility is as follows:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	SAR	SAR
Balance at beginning of the period / year	259,600,000	151,000,000
Withdrawn during the period / year	83,000,000	108,600,000
	342,600,000	259,600,000
Less;		
Deferred financing cost	(1,837,745)	(1,561,334)
	340,762,255	258,038,666

10- REVENUE RECEIVED IN ADVANCE

Revenue received in advance represents investment properties lease revenue and does not belong to the period ended 30 June 2020 and this revenue amounted to SAR 26,098,458 as at 30 June 2020 (31 December 2019: SAR 18,309,483).

11- 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. The related parties' transactions are governed by the regulations issued by CMA. 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 13). The Fund pays the following fees as well:

- Capital structure fees: The Fund Manager or any other party who arranges the capital structure charges the Fund a fee up to 1% of the total of any subscription amounts collected during future offering periods or upon collecting any other subscription amounts, whether in cash (by issuing priority rights) or in kind. Capital structuring fee is paid once, immediately after closing any capital raising process.
- Finance structure fees: The Fund Manager or any other party charges the Fund a financing structuring fee up to 1% of the total amount withdrawn under any bank facilities.
- Acquisition fee: The Fund Manager charges the Fund one-time acquisition fee up to 1% of the sale or acquisition value of any real estate asset throughout the term of the Fund.

A) significant transactions with the related party during the period:

<u>Related party</u>	<u>Nature of transaction</u>	<u>Size of transaction</u>	
		<u>For the period ended 30 June 2020</u>	<u>For the period ended 30 June 2019</u>
		<u>SAR</u>	<u>SAR</u>
Mulkia Investment	Management fees	4,785,464	3,711,375
	Acquisition fee	2,015,000	-
	Finance structure fees	830,000	-
	Capital structure fees	806,000	-

B) Below are balances due to a related party as of 30 June:

		30 June 2020 (Unaudited)	31 December 2019 (Audited)
<u>Related party</u>	<u>Nature of transaction</u>	<u>SAR</u>	<u>SAR</u>
Mulkia Investment	Management fees	5,024,737	12,195,860
	Acquisition fee	-	1,450,000
	Finance structure fees	-	778,800
	Expenses paid on behalf	185,377	136,511
		5,210,114	14,561,171

As of 30 June 2020, Unitholders account include 900,000 units owned by the Fund Manager (31 December 2019: 900,000 units).

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)(CONTINUED)
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

12- ACCRUED EXPENSES AND OTHER CREDIT BALANCES

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	SAR	SAR
Finance charges due	7,427,443	6,920,436
Accrued expenses	358,727	226,618
Others	-	40,000
	<u>7,786,170</u>	<u>7,187,054</u>

13- THE IMPACT ON NET ASSETS IF INVESTMENT 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 interim 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 at 30 June 2020, the average valuation of investment properties amounted to SAR 982,91 million (31 December 2019:790,47 SAR 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:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	SAR	SAR
Fair value of investment properties	982,919,602	790,472,306
Net carrying amount of investment properties (note 7)	<u>(963,029,524)</u>	<u>(770,003,303)</u>
Impact on net assets value per unit as a result of unrealized gains determined based on real estate valuation	19,890,078	20,469,003
Issued units	68,108,652	60,000,000
Unit share in unrealized gains based on real estate valuation	<u>0.29</u>	<u>0.34</u>

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

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	SAR	SAR
Net assets value at cost presented in these interim financial statements	643,111,204	573,878,182
Impact on net assets value per unit as a result of unrealized gains determined based on real estate valuation (note 13-1)	19,890,078	20,469,003
Net assets value at fair value	<u>663,001,282</u>	<u>594,347,185</u>

- 3- Below is analysis of net assets per unit using fair value of properties:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	SAR	SAR
Net assets value per unit at cost presented in these interim financial statements	9.44	9.56
Impact on net assets value per unit as a result of unrealized gains determined based on real estate valuation (note 13-1)	0.29	0.34
Net assets value per unit at fair value	<u>9.73</u>	<u>9.90</u>

14- 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.

15- 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. Fund Manager monitors changes in commission rates in the market and their impact on the Fund's activities.

Currency risk

It is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. 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.

16- LAST VALUATION DATE

The last evaluation day of the period was 30 June 2020 (for the year ended 31 December 2019: 31 December 2019).

17- GENERAL

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

18- 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 management believes these events occurred after the end of the reporting period and their related impacts are events occurred after the reporting period, therefore, do not require any amendments to the interim financial statements as of 30 June 2020.

Further, the Fund Manager is unable to determine the future impact of such events on the interim 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 30 July 2020 that are expected to have a significant impact on these interim financial statements as at 30 June 2020.

19- APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These interim financial statements were approved by the board of directors of the Fund on 20 Dhu al-Hijjah 1441H (10 August 2020).