

Al Mal Capital REIT

**Report and condensed interim financial statements
for the six-month period ended 30 June 2023**

Al Mal Capital REIT

Condensed interim financial statements

For the six-month period ended 30 June 2023

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Review report on the condensed interim financial statements to the unitholders of Al Mal Capital REIT

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Al Mal Capital REIT (the "Fund") as at 30 June 2023 and the related condensed interim statements of profit or loss and other comprehensive income, changes in unitholders' equity and cash flows for the six month period then ended, and other explanatory notes. Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("IAS 34"). Our responsibility is to express a conclusion on these condensed 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'. A review of interim financial information 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 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 condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34.

PricewaterhouseCoopers Limited Partnership Dubai Branch
28 July 2023

A handwritten signature in blue ink, appearing to read 'Murad Alnsour', is written over a light blue horizontal line.

Murad Alnsour
Registered Auditor Number 1301
Place: Dubai, United Arab Emirates

PricewaterhouseCoopers Limited Partnership Dubai Branch, License no. 102451
Emaar Square, Building 5, P O Box 11987, Dubai - United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me

Jacques Fakhoury, Douglas O'Mahony, Wassim El Afchal, Murad Alnsour, Rami Sarhan and Virendra Dhirajlal Lodhia are registered as practising auditors with the UAE Ministry of Economy

Al Mal Capital REIT

Condensed interim statement of financial position

	Note	At 30 June 2023 AED'000 (Unaudited)	At 31 December 2022 AED'000 (Audited)
Assets			
Non-current assets			
Investment properties	5	578,000	301,000
Current assets			
Receivables and other assets		2,630	5,570
Cash and cash equivalents	6	52,074	48,702
		<u>54,704</u>	<u>54,272</u>
Total assets		<u>632,704</u>	<u>355,272</u>
Equity and liabilities			
Equity			
Unitholders' capital	7	350,064	350,064
Retained earnings		15,609	3,139
Total unitholders' equity		<u>365,673</u>	<u>353,203</u>
Liabilities			
Non-current liabilities			
Bank borrowings	8	137,214	-
Current liabilities			
Due to related parties	9	107,825	1,400
Payables and other liabilities	10	21,992	669
		<u>129,817</u>	<u>2,069</u>
Total liabilities		<u>267,031</u>	<u>2,069</u>
Total equity and liabilities		<u>632,704</u>	<u>355,272</u>
Net asset value (AED'000)		365,673	353,203
Issued units (Units'000)		350,064	350,064
Net asset value per unit (AED)		1.04459	1.00897

To the best of our knowledge, the condensed interim financial statements are prepared in all material respects, in accordance with IAS 34.

These condensed interim financial statements were approved by the Board of Directors of Al Mal Capital PSC as the Fund Manager on 27 July 2023 and were signed on its behalf by:



Vice-Chairman & CEO



Chief Operating Officer

Al Mal Capital REIT

Condensed interim statement of profit or loss and other comprehensive income

	Note	Six-month period ended 30 June	
		2023 AED'000 (Unaudited)	2022 AED'000 (Unaudited)
Income			
Lease revenue	5	21,206	11,472
Less: property operating expenses		(397)	-
Net property income		<u>20,809</u>	<u>11,472</u>
Expenses			
Management fees	9	(2,223)	(2,161)
Other expenses		(361)	(273)
Total expenses		<u>(2,584)</u>	<u>(2,434)</u>
Operating profit for the period		18,225	9,038
Finance income/(costs)			
Finance income		958	107
Finance costs	8,9	(6,879)	-
Net finance (costs)/income		<u>(5,921)</u>	<u>107</u>
Profit before revaluation of investment properties		12,304	9,145
Net unrealised gain on revaluation	5	9,793	-
Profit for the period		22,097	9,145
Other comprehensive income		-	-
Total comprehensive income for the period		<u>22,097</u>	<u>9,145</u>
Earnings per unit			
Basic and diluted profit per unit (AED)		<u>0.063</u>	<u>0.026</u>

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Condensed interim statement of changes in unitholders' equity

	Note	Number of units '000	Unitholders' capital AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2022 - Audited	7	350,064	350,064	(8,036)	342,028
Profit for the period		-	-	9,145	9,145
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		-	-	9,145	9,145
At 30 June 2022 - Unaudited		<u>350,064</u>	<u>350,064</u>	<u>1,109</u>	<u>351,173</u>
At 1 January 2023 - Audited	7	350,064	350,064	3,139	353,203
Profit for the period		-	-	22,097	22,097
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		-	-	22,097	22,097
Dividends distribution	12	-	-	(9,627)	(9,627)
At 30 June 2023 - Unaudited		<u>350,064</u>	<u>350,064</u>	<u>15,609</u>	<u>365,673</u>

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Condensed interim statement of cash flows

		Six-month period ended 30 June	
		2023	2022
	Note	AED'000 (Unaudited)	AED'000 (Unaudited)
Cash flows from operating activities			
Profit for the period		22,097	9,145
Adjustments for:			
Unrealised gain on revaluation of investment properties	5	(9,793)	-
Finance income		(958)	(107)
Finance costs	8,9	6,879	
Operating cash flows before changes in working capital		18,225	9,038
Changes in working capital:			
Change in receivables and other assets		(631)	(623)
Change in due to a related party		(1,400)	3
Change in payables and other liabilities		21,323	(266)
Net cash inflow from operating activities		37,517	8,152
Cash flows from investing activities			
Purchase of investment property	5	(267,207)	-
Finance income received		958	107
Net cash (outflow)/inflow from investing activities		(266,249)	107
Cash flows from financing activities			
Proceeds from bank borrowings	8	140,000	-
Proceeds from loan due to a related party	9	105,000	-
Finance costs paid		(3,269)	
Dividends paid to unitholders	12	(9,627)	-
Net cash inflow from financing activities		232,104	-
Net increase in cash and cash equivalents		3,372	8,259
Cash and cash equivalents at beginning of the period		48,702	43,400
Cash and cash equivalents at the end of the period	6	52,074	51,659

Al Mal Capital REIT

Notes to the condensed interim financial statements for the six-month period ended 30 June 2023

1 Legal status and activities

Al Mal Capital REIT (the “Fund”) is a public closed ended real estate investment fund. The Fund was incorporated in the United Arab Emirates on 15 December 2020 for a period of 99 years pursuant to the provisions of the Emirates Securities and Commodities Authority (“SCA”) Board of Directors’ Chairman Decision No. 9/R.M of 2016 Concerning the Regulations as to Investment Funds (“Fund Regulations”) and the SCA Administrative Decision No. 6/RT of 2019 Concerning Real Estate Investment Fund Controls (the “REIT Regulations”).

The Fund is listed and traded on the Dubai Financial Market (the “DFM”) and is primarily involved in investing in income generating real estate assets, including real estate of educational facilities, health facilities, and industrial assets across the United Arab Emirates (“UAE”) and the Gulf Cooperation Council (“GCC”), thereby providing unitholders with an attractive annual return through dividend distribution. The Fund is mandatorily required as per the REIT Regulations to distribute 80% of its annual realised net profit to the unitholders, payable annually.

Al Mal Capital PSC is the fund manager (the “Fund Manager”) that manages the Fund’s investments. The Fund Manager is a Private Stockholding Company incorporated in the United Arab Emirates. The Fund Manager is a subsidiary of Dubai Investment PJSC, a company listed on the DFM.

Dubai Investments PJSC is the ultimate parent and the controlling party of the Fund and has an effective holding of 77.5% of the Fund’s units.

The registered address of the Fund and the Fund Manager is P.O. Box 119930, Dubai, UAE.

2 Basis of preparation

This condensed interim financial report for the six-month period ended 30 June 2023 has been prepared in accordance with the International Accounting Standard (“IAS”) 34, Interim Financial Reporting issued by International Accounting Standard Board (“IASB”). The consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the *Fund manager’s report and financial statements for the year ended 31 December 2022*. In addition, results for the period from 1 January 2023 to 30 June 2023 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2023.

The accounting policies used in the preparation of these condensed interim financial statements are consistent with those described in the *Fund manager’s report and financial statements for the year ended 31 December 2022*, except for the adoption of new standards or amendments effective as of 1 January 2023.

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Notes to the condensed interim financial statements for the six-month period ended 30 June 2023 (continued)

2 Basis of preparation (continued)

(a) New and amended standards adopted by the Fund

In the current period, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after 1 January 2023. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Fund’s future transactions or arrangements.

- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8
- Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction
- IFRS 17, ‘Insurance contracts’

Other than the above, there are no other significant IFRSs, amendments or interpretations that were effective for the first time for the financial year beginning on or after 1 January 2023.

(b) Impact of standards issued but not yet applied by the Fund

The following standards and interpretations have been issued but are not mandatory for annual reporting periods beginning on 1 January 2023, as they are effective for annual periods beginning on or after 1 January 2024. Management anticipates that these amendments will be adopted in the initial period when they become mandatorily effective. The impact of these standards and amendments is currently being assessed by the management.

- Amendment to IFRS 16 – Leases on sale and leaseback
- Amendment to IAS 1 – Non-current liabilities with covenants

3 Financial risk management

3.1 Financial risk factors

The Fund’s activities potentially expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The Fund’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund’s financial performance.

(a) Market risk

(i) Foreign exchange risk

The Fund does not have any significant exposure to foreign currency risk since majority of the transactions are denominated in US Dollar, or in AED and other currencies which are pegged to the US Dollar.

(ii) Price risk

The Fund has no significant exposure to price risk as it does not hold any financial instruments which are sensitive to price risk.

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Notes to the condensed interim financial statements for the six-month period ended 30 June 2023 (continued)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) *Market risk (continued)*

(iii) *Cash flow and fair value interest rate risk*

The financial assets and liabilities exposed to interest rate fluctuations are short term deposits, bank and related party borrowings, The Fund Manager's treasury ensures that deposits are maintained at the best prevailing market rate at the time of maintaining each deposit.

Cash flow sensitivity analysis for variable rate instruments

The profit or loss is impacted by the sensitivity in interest rate changes. If the interest rates had been 50 basis points higher or lower and all other variables were held constant, the Fund's profit for the period would decrease or increase by AED 1.2 million (2022: Nil).

(b) *Credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	30 June 2023	31 December
	AED'000	2022
Cash and cash equivalents		AED'000
Counterparties rating		
A1 (<i>Moody's rating</i>)	8,999	47,773
A2 (<i>Moody's rating</i>)	40,271	929
F2 (<i>Fitch's rating</i>)	2,804	-
	<u>52,074</u>	<u>48,702</u>

Credit risk from balances with banks and other financial institutions is managed by the Fund Manager by investing surplus funds only with approved and reputable counterparties.

As at 30 June 2023, cash and bank balance with one bank accounted for 77% of the cash and bank balances of the Fund. The Fund Manager is of the view that this concentration of credit risk would not result in a loss to the Fund as the counterparty bank has a high credit rating (Moody's rating – A2).

(c) *Liquidity risk*

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Fund aims to maintain flexibility in funding by keeping committed credit lines available.

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Notes to the condensed interim financial statements for the six-month period ended 30 June 2023 (continued)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) *Liquidity risk (continued)*

The Fund aims to maintain the level of cash and cash equivalents and other liquid investments at an amount in excess of expected cash outflows on financial liabilities. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities, including estimated interest payments.

	Within 1 year	1 -5 years	Above 5years	Total
30 June 2023	AED'000	AED'000	AED'000	AED'000
Non-derivative financial liabilities				
Bank borrowings	9,578	162,009	-	171,587
Due to related parties	107,825	-	-	107,825
Payables and other liabilities	307	-	-	307
	<u>117,710</u>	<u>162,009</u>	<u>-</u>	<u>279,719</u>
31 December 2022				
Due to related parties	1,400	-	-	1,400
Payables and other liabilities	520	-	-	520
	<u>1,920</u>	<u>-</u>	<u>-</u>	<u>1,920</u>

Although the loan due to the related party is due within one year, the Fund is already in the final stages of discussions with a commercial bank to refinance the balance.

3.2 Capital risk management

The Fund's objectives when managing capital are to safeguard its ability to continue as a going concern whilst seeking to maximise benefits to Unitholders. The Fund's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Fund Manager focuses on the return on capital, which is defined as profit for the year attributable to equity holders of the Fund divided by total unitholders' equity.

The Fund Manager seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position.

3.3 Fair value estimation

The fair values of financial assets and financial liabilities measured at amortised cost at 30 June 2023 and 31 December 2022 are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the financial assets and liabilities are short-term in nature.

4 Use of estimates and judgments

The preparation of condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments made by the management in applying the Fund's accounting policies and the key sources of estimation uncertainty were the same as those that were applied in the preparation of the funds financial statements as at and for the year ended 31 December 2022.

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Notes to the condensed interim financial statements for the six-month period ended 30 June 2023 (continued)

5 Investment properties

	30 June 2023 AED'000	31 December 2022 AED'000
Opening balance	301,000	300,000
Additions to investment properties during the period*	267,207	-
Gain on fair valuation	9,793	1,000
Balance at 31 December	<u>578,000</u>	<u>301,000</u>

Lease revenue of AED 21.2 million has been recognised during the period (2022: AED 11.5 million).

*On 15 February 2023 the Fund successfully completed the acquisition of two school campuses (Muwaliah Campus and Al Qaraïen Campus with a plot area of 1,065,626 Sq. ft and 308,106 Sq. ft, respectively) of Wesgreen International School from Al Batha Real Estate for a consideration of AED 265 million. The school is leased to and operated by GEMS Education for a lease term of 30 years and GEMs Education will continue to be the lessee and operator of the school under the existing lease framework agreement.

Valuation processes

The properties were valued at 30 June 2023 by an independent registered valuer in accordance with the RICS Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors taking into account requirements of IFRS 13 'Fair Value Measurement'. For all investment properties, their current use equates to the highest and best use. Senior management review the valuations performed by the independent valuers for financial reporting purposes.

Valuation techniques underlying the Fund Manager's estimation of fair value:

The valuation was determined using the investment method (term and reversion), which derives value from the capitalisation of a property's net income.

6 Cash and cash equivalents

For the purposes of the condensed interim statement of cash flows, cash and cash equivalents comprise the following:

	30 June 2023 AED'000	At 31 December 2022 AED'000
Cash with banks	11,943	48,702
Deposit with banks	40,131	-
	<u>52,074</u>	<u>48,702</u>

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Notes to the condensed interim financial statements for the six-month period ended 30 June 2023 (continued)

7 Unitholders' equity

Unitholders' equity comprises 350,064,000 units of AED 1 each.

8 Bank borrowings

Bank borrowings include Islamic financing facility (Corporate Ijara) of AED 140 million for a term of 5 years (inclusive of moratorium period of 2.5 years) at 1-month EIBOR plus 2% - 3.5% profit margin rate. The facilities are secured by first degree mortgage against the investment properties in Ajman (the Shola schools) and assignment of lease proceeds and insurance on the investment properties.

9 Related party transactions and balances

Related parties comprise of the ultimate parent company, the Fund Manager and key management personnel and businesses which are controlled directly or indirectly, by the ultimate parent company, the Fund Manager or key management personnel. The aggregate value of significant transactions with related parties during the period was as follows:

Related party transactions

	For the six-month period ended 30 June 2023	For the six-month period ended 30 June 2022
	AED'000	AED'000
Transactions with Fund Manager		
Management fees	2,223	2,161
Asset acquisition fee capitalised in investment properties	2,650	-
Transactions with Ultimate Parent Company		
Finance costs	2,825	-

As per the prospectus and the fund management agreement, the Fund Manager is entitled to the following:

- Management fees: yearly management fees of 1.25% based on the last reported NAV, calculated and paid every three months.
- Acquisition or disposition fee: 1% of the acquisition or disposition value of the assets acquired or disposed by the Fund.
- Arrangement advisory fee: 1% of the debt or loan value for advising on loan and debt arrangements.

In all cases, the annual fees (the total of the above three fees) during the fiscal year shall not exceed 2.25% of the last reported NAV of the fund calculated in the same fiscal year and before deduction of management fees.

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Notes to the condensed interim financial statements for the six-month period ended 30 June 2023 (continued)

9 Related party transactions and balances (continued)

Related party balances

	30 June 2023 AED'000	At 31 December 2022 AED'000
Due to related parties		
Fund Manager	-	1,400
Ultimate Parent Company*	107,825	-
	<hr/>	<hr/>

*The balance due to the ultimate parent company is the carrying value of the short-term Wakala borrowing for AED 105 million at a profit rate of 3-month EIBOR plus 2% obtained to finance the investment properties acquired during the period. The amount is payable on 31 July 2023.

10 Payables and other liabilities

	30 June 2023 AED'000	At 31 December 2022 AED'000
Unearned rental income	21,373	-
Accrued expenses	307	520
Other payables	312	149
	<hr/>	<hr/>
	21,992	669
	<hr/>	<hr/>

11 Implementation of corporate tax law & application of IAS 12 income taxes

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (the "Law") to enact a Federal corporate tax regime in the UAE. Furthermore, on 16 January 2023, a Cabinet Decision was published specifying the threshold of AED 375,000 of taxable income above which taxable entities would be subject to a 9% corporate tax rate.

The Corporate Tax regime will become effective for the accounting periods beginning on or after 1 June 2023 hence for the Group it will be effective from 1 January 2024. Management acknowledges that a number of regulations with regards to the application of tax legislation are yet to be published and as such management will continue to monitor developments in order to assess the impact of corporate tax implications on the Group.

12 Dividend

The Fund manager declared and paid final dividend of AED 2.75 fils per unit amounting to AED 9.63 million for the financial year 2022 on 21 March 2023, which together with the interim dividend paid in financial year 2022 represents 97 % of the Fund's annual realised profit for the financial year 2022.

The above dividend distribution complies with the minimum profit distribution requirements of the REIT regulations.