Manazel Al Mamlaka Fund Investor Update
September 2024

The following report presents an update in relation to your investment in Manazel Al Mamlaka Fund ("Fund") as of September 30th, 2024.

Background

The Fund was incorporated in 2012 and invested in two real estate assets in Saudi Arabia:

1. Radium Compound, acquired in 2014; and
2. Qurtobah Labour accommodation, acquired in 2015.

In 2022, the Fund exited Qurtobah Labour accommodation through an auction process.

The Fund currently has a mortgage on the Radium Compound. This loan was taken in 2015 and the outstanding amount on the loan as of September 30th, 2024, is SAR 171.00 million. The subsequent principal payments, originally due on May 30thand November 30th 2024, for the amount of SAR 8 and SAR 10 million, respectively, has been deferred. As the bank has agreed to give two periods of principal non-payment and deferring those amounts upon our request as cash flow challenges and depletion of cash reserves is anticipated, particularly during the upcoming fourth quarter of 2024. It is to be noted that the cash as of September 30th 2024 was SAR 15.81 million, while provisioned liabilities amounted to SAR 12.18 million (Excluding accrued interest) and accrued interest on the bank loan amounted to approximately SAR 5.6 million. Furthermore, we are in discussion with other financial institutions to explore potential options for refinancing the loan with them, aiming to secure more favorable terms and conditions compared to our existing arrangement with the current bank. However, these discussions are proving to be challenging in securing more favorable terms with the current Fund situation.

We would like to bring to your attention that there are ongoing disputes with the Zakat authorities in the Kingdom of Saudi Arabia, and to efficiently address this matter, we have engaged the professional services of KPMG. For certain cases, final decisions have been ruled and we anticipate final decisions on the remaining in the fourth quarter of 2024. We have provisioned for such expenses and annual zakat liabilities in the NAV calculation. However, it should be noted that such provisioned amount could change significantly upon the final ruling.

During Q3 2024, there have been disbursements made to the Zakat authorities, amounting to approximately SAR 608,000 in accordance with finalized court rulings and annual zakat liabilities.

Radium Compound

Radium Residential Compound is located within Al Munsiyah District, Riyadh, Kingdom of Saudi Arabia and it is situated approximately 200 meters northwest of Al Thumamah Road, 400 meters south of Saudi Railway Company headquarters, and 5 km northeast of Airport Road.

The immediate surroundings of Radium Compound have witnessed significant development in recent years, highlighted by the completion of the King Khalid International Airport's new terminal for domestic flights. Notably, plans are underway to expand the airport, projecting a remarkable capacity of 120 million travelers by 2030, reinforcing the area's prominence. Furthermore, the area is also well serviced by metro connectivity. Moreover, the retail landscape in the proximity of Radium Compound has undergone substantial upgrades, amplifying its appeal as a preferred destination for residents.

Property Details

The Radium Compound has a land area of 44,689 sq. m and consists of 229 residential units (69 villas and 160 apartments) with a total built-up area of 35,175 sq. m. including facilities. The compound's facilities and amenities include landscaped garden areas, recreation center, swimming pools, multi-functional sport courts, an administration building and a mosque.

The Radium Compound is in good condition, fully insured with 24-hour security.

Fund Strategy

Building on the strong macro-economic position in KSA supported by stable oil prices and increased investment activities as well as the expansion of Riyadh city, we believe that the Radium Compound neighborhood is becoming more and more appealing to tenants. We have also recently received several enquiries from large local and multinational companies in relation to tenanting the compound. More importantly, the location of the compound is now becoming strategic due to its proximity to the metro station, the mega development project "Roshn development", expansion of KKIA and others. All of which are factors that will enhance the value of the compound and the rental rates. The Fund strategy continues to focus on maximizing the exit value for the investors.

Maintenance strategy

The maintenance work in the compound has started as of June 2024, and the ongoing maintenance activities are expected to be completed by Q4 of 2024. Furthermore, an engineering consulting company has been appointed to oversee the contractor's work for the maintenance activities.

It is to be noted, that we are prioritizing essential maintenance to ensure the compound is in good operating condition. However, we will refrain from extensive refurbishments for key areas such as toilets, kitchens, and furniture-related uplifts, recognizing that potential incoming tenants may have specific preferences or requirements. This approach allows tenants the flexibility to manage and personalize these aspects according to their needs, aligning with their individual preferences upon occupancy.

Rental strategy

We are engaging leasing agents and property managers through an RFP process to solicit proposals targeting Category A tenants, aiming to secure robust and sustained rental inflows while maximizing yield. Given that maintenance activities are currently active, our goal is to secure a tenant prior to the completion of maintenance, if possible. Additionally, we are in discussions with various parties, including compound operators, to potentially engage their services in managing the compound should securing a credible single tenant prove challenging.

It is important to note that during discussions with property managers and leasing agencies, it was recommended that additional renovations be undertaken, specifically targeting the toilets, kitchens, and landscaping of the compound. These improvements are expected to enhance the overall appeal and functionality of the property, ultimately aiming to maximize its rental value.

Net Asset Value (NAV):

As of September 30th, 2024, and based on the management accounts of the Fund, the Fund had the following key assets and liabilities. It should be noted that management accounts can vary from the audited financial statements.

Key Assets:

- **Radium Compound:** **SAR 221.40 million**
  (*Valuation report dated January 8th 2024, valued the Compound at SAR 246 million, however a 10% discount was applied to represent a more adequate value)*

- **Cash with Banks:** **SAR 15.81 million**

Key Liabilities:

- **Bank Loan:** **SAR 171.00 million**

- **Provisioned Liabilities:** **SAR 12.18 million**

Estimated NAV

NAV: **SAR 48.49 million**

Estimated NAV per Unit: **SAR 17.32**

We have received a comprehensive valuation report from a licensed service provider in Saudi Arabia (Dar Al Qias Evaluation), valuing the Compound at SAR 246 million. However, we find the indicated valuation doesn't accurately capture the compound's liquidity value. Conservatively, a discount of 10% was applied to better align the valuation with a more adequate liquidity value of the compound.

It is imperative to emphasize that the valuation price stipulated in the valuation report is not indicative of an offered price but rather serves as an estimate provided by the evaluator. This estimation is subject to significant fluctuations, potentially altering in a positive or negative direction upon an eventual exit from the investment. The dynamic nature of market conditions and variables pertinent to the property's performance may notably influence this valuation.

Furthermore, it should be highlighted that it is anticipated that cash flow challenges might arise and cash reserves to deplete, particularly during the upcoming fourth quarter of 2024, primarily due to maintenance costs, financing cost on loans, zakat and tax disputes, and other operational expenses.

Exit

The Fund Manager is regularly assessing the exit options for the Fund and the ways to maximize such exit. The initial term of the Fund was for 5 years (3+1+1) and, since then, it has been extended on a yearly basis and the next review of the Fund's term will be in November 2024.

It should be noted that in the first quarter of the fiscal year 2024, the fund manager resolved to try to pursue the divestment of the compound through an auction process. Setting the floor price in close alignment with the valuation report dated January 8th 2024. Despite planning and following valuation insights, the auction didn't achieve the predetermined floor price. The Fund Manager remains committed to exploring exit options for Radium Compound and the ways to maximize its divestment, if possible.

We hope that once the Compound is maintained and leased, we will have multiple options to consider maximizing the exit value of the Radium Compound. In the meantime, we will continue to explore sale options as long as they are in line with our exit parameters.

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