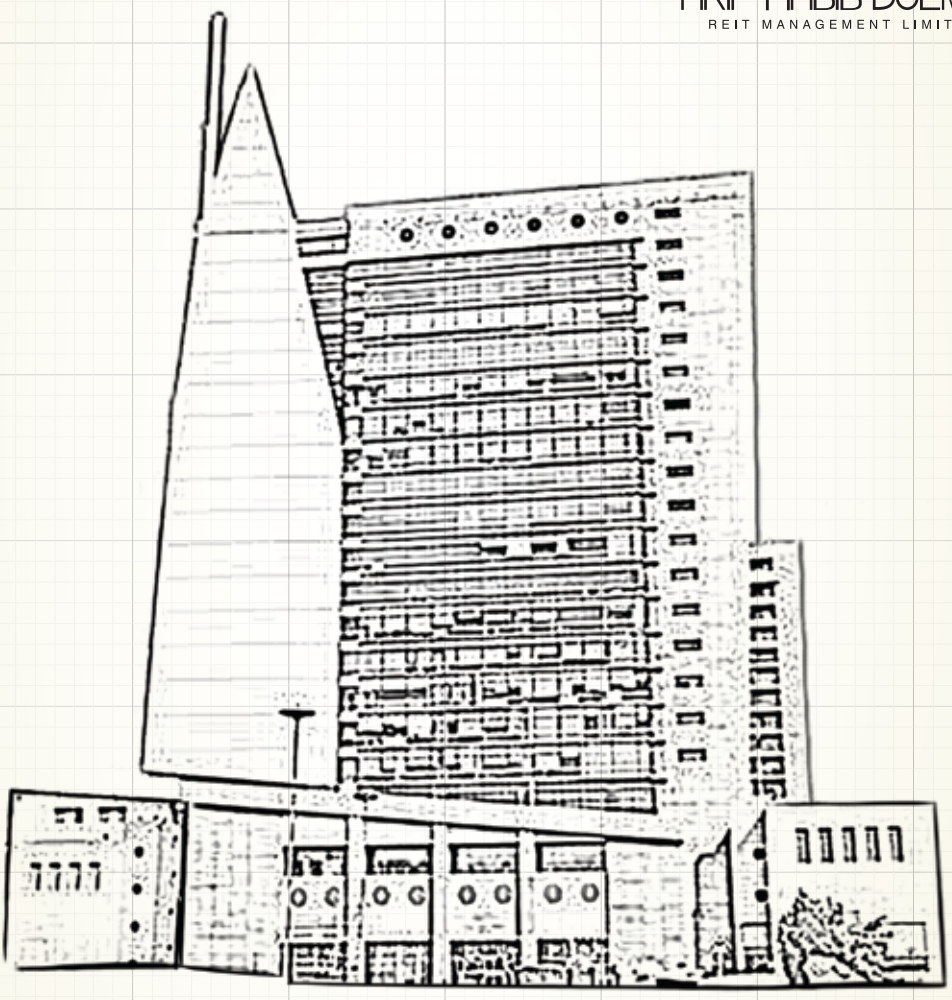
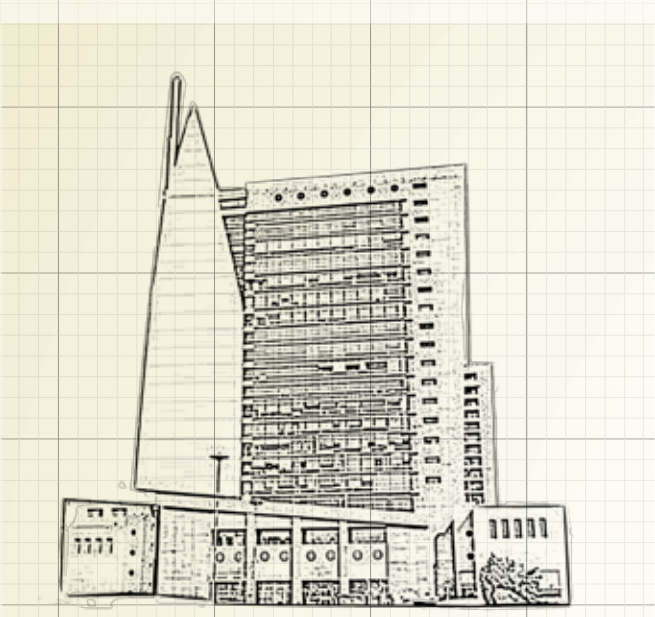
ARIF HABIB DOLMEN
REIT MANAGEMENT LIMITED



# Dolmen City REIT

## Symbol of strength

Quarterly Report 31 March 2018



# About REITs

A Real Estate Investment Trust (REIT) is an entity that owns or finances income-producing real estate. REITs are like mutual funds. REITs provide all types of investors with regular income streams, diversification and long-term capital appreciation. REITs allow individuals to invest in real-estate properties similar to purchasing a stock of a company and owning units. A REIT combines a pool of money from individuals and institutions to buy real estate. The unit holders of a REIT Scheme earn a share of the income produced through renting or selling of the real estate property without actually having to bear the hassle of buying or managing the property.

# REITs in Pakistan

REIT Regulatory Framework in Pakistan was introduced by Securities and Exchange Commission of Pakistan (SECP) in January 2008, which was subsequently repealed and replaced by REIT Regulations 2015. These regulations are comprehensive with the principal focus on the protection of interests of general investors in a REIT Scheme. A "REIT Scheme" in Pakistan means a listed closed-end fund registered under Real Estate Investment Trust Regulations 2015. The three types of REIT schemes introduced by SECP in Pakistan are:

Developmental REIT: A Developmental REIT Scheme invests in real estate to develop it for Industrial, Commercial or Residential purposes through construction or refurbishment.

Rental REIT: A Rental REIT Scheme invests in commercial or residential Real Estate to generate rental income.

Hybrid REIT: A RIET Scheme having both a portfolio of buildings for rent and a property for development.

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# Scheme's Information

| | | |
|---|---|---|
| **Management Company** | Arif Habib Dolmen REIT Management Limited<br>Arif Habib Centre, 23 M.T. Khan Road, Karachi | |
| **Board of Directors** | Mr. Nasim Beg | **Chairman** |
| | Mr. Nadeem Riaz | **Director** |
| | Mr. Asadullah Khawaja | **Independent Director** |
| | Mr. Qamar Hussain | **Independent Director** |
| | Mr. Abdus Samad A. Habib | **Director** |
| | Mr. Faisal Nadeem | **Director** |
| | Mr. Muhammad Ejaz | **Chief Executive** |
| **Audit Committee** | Mr. Qamar Hussain | **Chairman** |
| | Mr. Abdus Samad A. Habib | **Member** |
| | Mr. Asadullah Khawaja | **Member** |
| **CFO & Company Secretary** | Mr. Muneer Gader | |
| **Trustee \| Share Registrar** | Central Depository Company of Pakistan Limited<br>CDC House, 99-B, Block B, S.M.C.H.S,<br>Main Shahra-e-Faisal, Karachi. | |

| | |
|---|---|
| **Bankers** | Askari Bank Limited<br>Faysal Bank Limited<br>Habib Bank Limited<br>Habib Metropolitan Bank Limited<br>Meezan Bank Limited<br>United Bank Limited<br>Allied Bank Limited<br>Bank Alfalah Limited<br>Bank Al Habib Limited |
| **External Auditors** | Deloitte Yousuf Adil<br>Chartered Accountants<br>Cavish Court, A-35, Block<br>7 & 8, K.C.H.S.U,<br>Shahrah-e-Faisal, Karachi. |
| **Internal Auditors** | Junaidy Shoaib Asad & Co<br>Chartered Accountants<br>1/6-P, P.E.C.H.S., Mohtrama Laeeq Begum Road,<br>Off Shahrah-e-Faisal, Karachi. |
| **Legal Advisor** | Mohsin Tayebaly & Co<br>Corporate Legal Consultants<br>1st Floor, Dime Centre, BC-4 Block 9,<br>Kehkashan, Clifton, Karachi. |
| **Property Manager** | Dolmen Real Estate Management (Private) Limited |
| **Property Valuer** | MYK Associates (Private) Limited |
| **Shariah Advisor** | Mufti Muhammad Ibrahim Easa |
| **Rating Agency** | JCR-VIS Credit Rating Company Limited<br>VIS House, 128/C, 25th Lane Off Khayaban-e-Ittehad,<br>Phase VII, DHA, Karachi. |
| **Ratings** | RMC Rating: AM2 (RMC)<br>REIT Rating: RR1 |
| **Registered Office** | Dolmen City REIT Scheme<br>Arif Habib Centre, 23 M.T. Khan Road, Karachi. |

# Management Company's Statements

## Vision

To be a knowledge based Real Estate Investment Company which adheres to the highest standards of Integrity, Professionalism and Quality to generate sustainable returns for all stakeholders.

## Mission

To build upon our competitive advantage of being the first REIT Management Company of Pakistan by providing customer-centric full scale real estate investment related solutions to a selected group of clientele.

We endeavor to provide solutions that not only contribute to the financial bottom-line for our customers but also help them create a distinct strategic advantage.

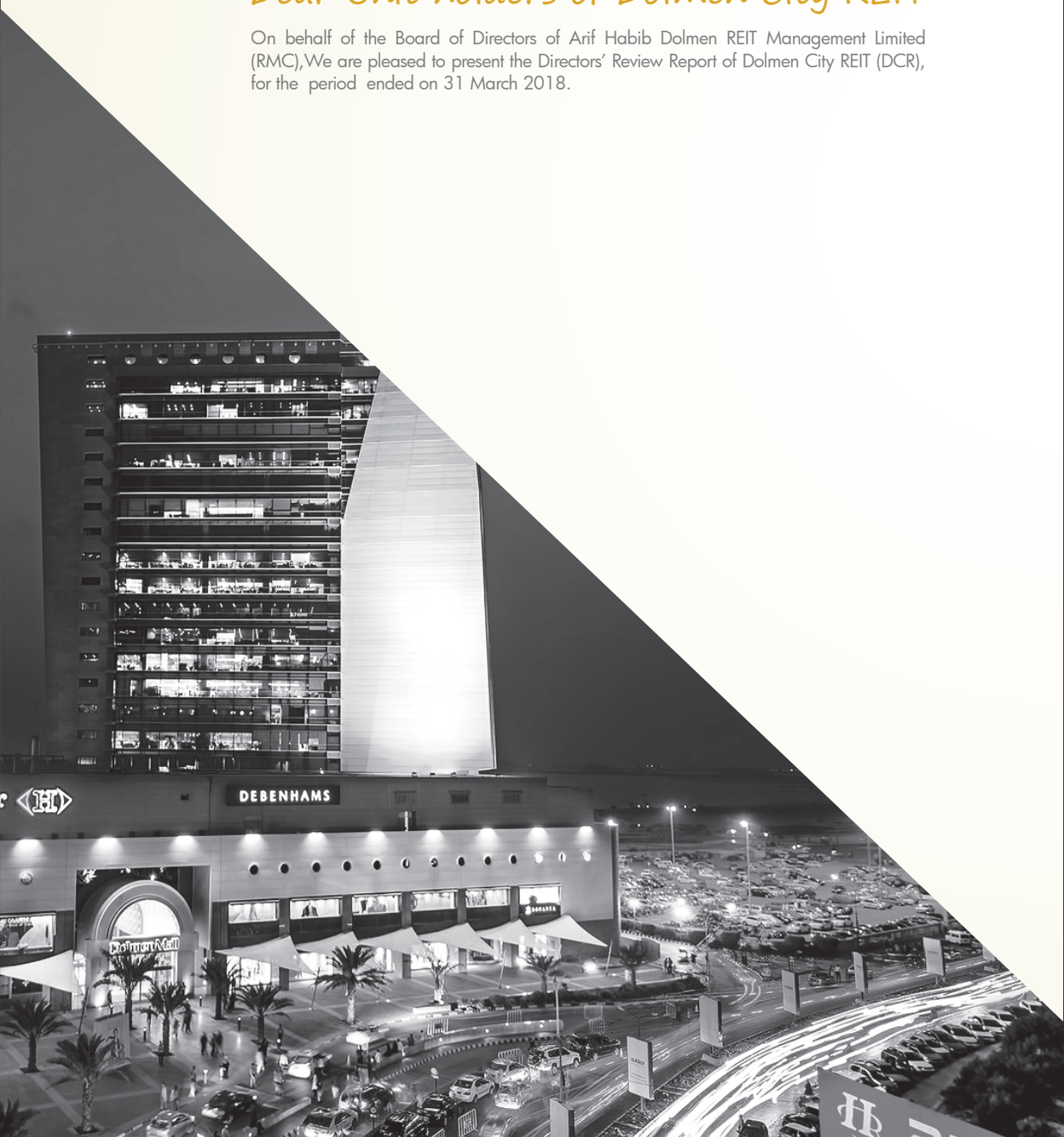
## Values

Responsibility
Energy
Integrity
Teamwork

# Directors' Review Report

## Dear Unit holders of Dolmen City REIT

On behalf of the Board of Directors of Arif Habib Dolmen REIT Management Limited (RMC),We are pleased to present the Directors' Review Report of Dolmen City REIT (DCR), for the period ended on 31 March 2018.



## Financial and Operational Performance

During the period under review, DCR recorded a rental income of **PKR 2,263.17** million (PKR 764.93 million for the third quarter) showing an increase of 7.35% over the corresponding period last year. Marketing income was recorded at **PKR 144.49** million (PKR 58.53 million for the third quarter) against **PKR 108.12** million during the previous corresponding period. Administrative and operating expenses during the period were 16.55% of rental income at **PKR 374.61** million. Net Operating Income for the period was recorded at **PKR 2,033.04** million (PKR 685.52 million for the third quarter) compared with **PKR 1,936.61** million during the corresponding period last year. Profit for the period was recorded at **PKR 3,169.72** million, growing by 6.62% from **PKR 2,973.02** million in the comparative period; DCR is pass through entity for tax purposes and not liable to income tax provided it meets certain conditions. The profit translates into earnings of **PKR 1.43** per unit (PKR 0.31 per unit for the third quarter) against **PKR 1.34** per unit during the corresponding period last year. The earning per unit of **PKR 1.43** per unit comprises of distributable income of **PKR 0.92** (**PKR 0.88** for the corresponding period) and **PKR 0.51** (**PKR 0.46** for corresponding period) being un-distributable unrealized fair value gain on investment property.

The occupancy level of DCR's property is stable on an overall basis and stand at **98.26%** by the end of March 2018 (compared with **97.50%** at the end of December 2017). The Harbour Front is completely occupied with satisfied tenants and the tenancy pool of Dolmen Mall Clifton has majorly remained the same. Total vacant area in the Mall is **13,987** square feet. During the quarter, some brands and companies such as **Fat Burger, Hakka Chine** have exited the tenancy pool while **Splash, Image** amongst others have entered it. Tenants' satisfaction with the operations and property management at the premises is reflected in their long term agreements and eagerness to occupy further space on availability. As on 31 March 2018, the Weighted Average Lease Expiry 'WALE' based on the leasable area of Dolmen City Mall (68% of the total area) is around **3.05 years** and of the Harbour Front (32% of the total area) is around **3.36 years** (DCR's current average lease expiry is **3.15 years**).

Occupancy level at Dolmen Mall Clifton and Harbour Front at year end is as follows:

| | Leasable Area | Leased Area March, 2018 | Vacant Area | Occupancy % |
|---|---|---|---|---|
| | (in square feet) | | | |
| Dolmen Mall Clifton | 547,662 | 533,675 | 13,987 | 97.45% |
| The Harbour Front | 257,161 | 257,161 | - | 100% |
| **Total** | **804,823** | **790,836** | **13,987** | **98.26%** |

Changes in leased area on a quarter on quarter basis, are as follows:

| | Leased Area March, 2018 | Leased Area December, 2017 | Occupancy Variations | Occupancy Variations % |
|---|---|---|---|---|
| | (in square feet) | | | |
| Dolmen Mall Clifton | 533,675 | 529,642 | 4,033 | 0.76% |
| The Harbour Front | 257,161 | 257,161 | - | - |
| **Total** | **790,836** | **786,803** | **4,033** | **0.51%** |

## Islamic Finance Excellence Award

During March 2018, your REIT management company received appreciation from the **Global Forum on Islamic Finance**, organized by Center of Islamic Finance-Comsats Lahore, for introducing Shariah compliant REITs in Pakistan and bringing real estate asset class within the reach of small savers. The Forum, as part of their annual distribution of Islamic Finance Excellence Awards, bestowed **Dolmen City REIT** with **'Best Islamic REIT in the region'** award, in recognition of outstanding performance since inception.

### Marketing Activities

Marketing and branding activities during the period kept the Mall bustling with healthy footfall of around **2.45** Million during the quarter (average monthly footfall was **816,907 visitors**).

The Property Manager played an instrumental role in maintaining the goodwill and brand image of Dolmen City and enticed Karachi'ites to visit, shop and be part of the Dolmen Mall experience. The quarterly **Dolmen Magazine** kept patrons abreast of shopping festivals, event calendar, brand advertisements and discount offerings. Total **20,000 copies** were distributed of the issue to our subscribers, in-mall distribution, tenants and other patrons.

During the month of February 2018, Dolmen Mall celebrated **Lawn season** wherein major brands exhibit their latest collections under one umbrella to give customers innovative shopping experience. Screens were placed in the food court for daily screening of **Pakistan Super League cricket matches**. Daily average footfall during the month was 26,568 visitors.

### International Women's Day:

Women's Day is one of the signature events of Dolmen. It was a 3 day event starting from 8th to 11th March. Women's Day brought together leading international and local brand discounts and deals, different engaging activities and offers.

The event fortified women entrepreneurs to showcase their exclusive product lines at dolmen bazaar and encouraged them to become active participants in the community. The mall featured brands like L'Oréal, Make up City & Dermalogica. The mall was adorned with flowers and the atrium hosted numerous engaging activities where customers could win amazing giveaways, get personalized sketched and much more. The recorded footfall during the event was **116,025** visitors.

### Pakistan Day Celebrations:

Dolmen Mall celebrated Pakistan Resolution Day from 23rd to 25th March. The mall adorned itself in patriotically crafted thematic ambience in green and white. Additionally, popular local and international brands at Dolmen Malls joined the #MeriPehchan celebrations by offering 23% discount on their outlets. Dolmen Mall engaged customers in patriotic engagements such as parades, flag hoisting, resolution day quizzes, cultural acts and performances by the cultural artists.

The recorded footfall during the event was **107,115** visitors.

### Stocks Performance

During the quarter under review, the stock of 'DCR' showed signs of value growth traded on the Pakistan Stock Exchange at an average unit price of **PKR 12.33** and touched a high of **PKR 13.00** and a low of **PKR 10.96** per unit. During the same period KSE100 index moved in the range between **45,560.30** to **40,711.04**. In a volatile market, the stock of DCR remained fairly stable with beta of **0.28** (which means for every **1** rupee change in the value of a share in the benchmark; DCR price would likely change by only **28** paisa, beta here represents low volatility and elasticity) and covariance with the market of only **0.26** (which is a measure of the degree to which returns on two risky assets move in tandem, indicate low positive correlation of DCR stock performance with the market performance). Hence, REITs are excellent instruments for accomplishing portfolio diversification and reduced volatility.

The Net Asset Value 'NAV' per Unit of DCR is **PKR 18.44** at the quarter ended on 31 March 2018 and was **PKR 18.44** at the end of second quarter on 31 December 2017 and **PKR 18.40** of the corresponding period last year (i.e. 31 March 2018). DCR on its closing Unit price of **PKR 12.99** on March 30, 2018 traded at a discount of **29.56%** to its NAV.

### Dividend Distribution

The first and second interim cash dividend for FY 17-18 of **PKR 0.30** per unit each amounting to PKR **1,334.20** million, which was announced by the Board of RMC in their meeting held on 26 October 2017 and on 09 January 2018, were paid on 05 December 2017 and 16 February 2018 respectively. The dividends distributed so far translate into PKR 0.60 per Unit, providing annualized Dividend Yield equal to **12.00%** at par.

### Business Environment

The business environment surrounding Dolmen City remains stable. However, it is pivotal that the taxation regime encompassing REITs and real estate sector are made supportive and consistent in the longer term. It is important that REITs are supported at all levels and benefits that are available to REITs in the province of Sindh are extended throughout the country for their proliferation.

The introduction of new, quality malls in the country is creating a healthy competition bringing with it benefits of several international brands eyeing Pakistan as their next destination. With professional property management, long lease expiries, extensive marketing activities and renowned tenants, we remain confident that Dolmen City will remain the destination of choice for the visitors, retail operators and corporations alike. This was also confirmed by the DCR Rating reaffirmation for the second year in a row (RR1, highest investment quality) by JCR-VIS Credit Rating Agency in 2017.

## Outlook

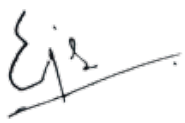
Dolmen City REIT is operating above its projected financial trajectory and has remained successful in maintaining occupancy levels and posting rental growth. Consistently healthy footfall and tenants' contentment with the mall is the testimony of operational success for DCR. Going forward, rental escalations would be the prime revenue driver as the mall is nearing maximum occupancy.

Vigilance at all levels by Trustee, RMC, Shariah Advisor and the SECP ensures compliance to the REIT Regulations and other applicable laws and standards is adhered. These factors continue to provide DCR's Unit Holders with a rewarding investing experience.

## Acknowledgement

We are thankful to DCR's valued investors, the Securities and Exchange Commission of Pakistan, the management of Pakistan Stock Exchange, the Trustees of DCR, the Property Manager and business partners for their continued cooperation and support. We also appreciate the effort put in by the management team.

For and on behalf of the Board



**Muhammad Ejaz**
Chief Executive

**Nasim Beg**
Chairman

Karachi
18 April 2018

CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED
Head Office:
CDC House, 99-B, Block 'B',
S.M.C.H.S. Main Shahra-e-Faisal,
Karachi - 74400, Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com

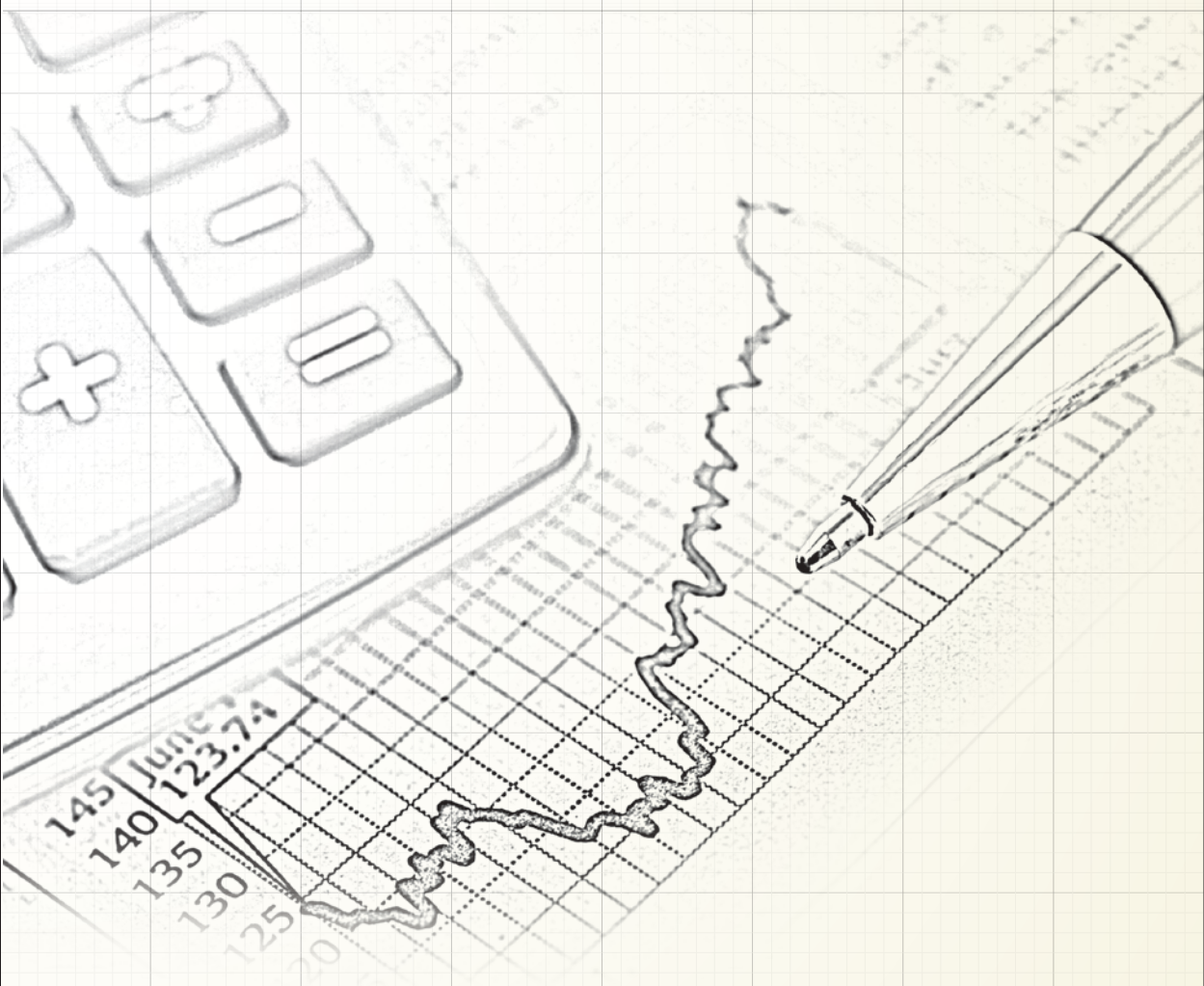
## TRUSTEE REPORT TO THE UNIT HOLDERS
## DOLMEN CITY REIT

**Report of the Trustee pursuant to Regulation 15(1)(xiv) of the Real Estate Investment Trust Regulations, 2015**

We Central Depository Company of Pakistan Limited, being the Trustee of Dolmen City REIT (the Fund) are of the opinion that Arif Habib Dolmen REIT Management Limited, being the Management Company of the Fund has materially complied with the Business Plan during the quarter ended March 31, 2018.

**Aftab Ahmed Diwan**
Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi: April 25, 2018




# Condensed Interim Financial Information for the period ended 31 March 2018

# Condensed Interim Balance Sheet

As at 31 March 2018

| | Note | Unaudited 31 March 2018 | Audited 30 June 2017 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **ASSETS** | | | |
| **Non - current assets** | | | |
| **Total non - current assets** - Investment property | 6 | **39,967,318** | 38,839,964 |
| **Current assets** | | | |
| Rent receivables | 7 | **106,310** | 91,135 |
| Advances, prepayments and other receivables | 8 | **270,349** | 258,051 |
| Profit accrued | | **6,030** | 25,171 |
| Bank balances | 9 | **1,423,682** | 3,185,531 |
| **Total current assets** | | **1,806,371** | 3,559,888 |
| **Total assets** | | **41,773,689** | 42,399,852 |
| **REPRESENTED BY:** | | | |
| **Unit holders' fund** | | | |
| Issued, subscribed and paid up (2,223,700,000 units of Rs. 10 each) | | **22,237,000** | 22,237,000 |
| **Reserves** | | **18,776,740** | 19,498,498 |
| **Total unit holders' fund** | | **41,013,740** | 41,735,498 |
| **Liabilities** | | | |
| **Non - current liabilities** | | | |
| Formation costs payable to REIT management company | | **50,339** | 105,255 |
| Security deposits | | **168,986** | 88,020 |
| **Total non - current liabilities** | | **219,325** | 193,275 |
| **Current liabilities** | | | |
| Payable to REIT management company | 10 | **79,842** | 78,531 |
| Security deposits | | **120,540** | 140,713 |
| Accrued expenses and other liabilities | 11 | **340,242** | 251,835 |
| **Total current liabilities** | | **540,624** | 471,079 |
| **Total unit holders' fund and liabilities** | | **41,773,689** | 42,399,852 |
| | | (Rupees) | |
| **Net assets value per unit** | | **18.44** | 18.77 |
| **CONTINGENCIES AND COMMITMENTS** | 12 | | |

The annexed notes from 1 to 19 form an integral part of the condensed interim financial information.

Chief Financial Officer | Chief Executive Officer | Director

# Condensed Interim Profit and Loss Account (Unaudited)

For the nine months period and quarter ended 31 March 2018

| | Note | Nine months period ended | | Quarter ended | |
|---|---|---|---|---|---|
| | | 31 March 2018 | 31 March 2017 | 31 March 2018 | 31 March 2017 |
| | | (Rupees in '000) | | | |
| **Income** | | | | | |
| Rental income | | **2,263,166** | 2,108,273 | **764,933** | 735,524 |
| Marketing income | | **144,491** | 108,123 | **58,533** | 34,080 |
| | | **2,407,657** | 2,216,396 | **823,466** | 769,604 |
| Administrative and operating expenses | 13 | **(374,613)** | (279,785) | **(137,949)** | (84,513) |
| **Net operating income** | | **2,033,044** | 1,936,611 | **685,517** | 685,091 |
| Other income - profit on deposits | | **89,725** | 82,808 | **20,552** | 30,051 |
| | | **2,122,769** | 2,019,419 | **706,069** | 715,142 |
| Management fee | 10.1 | **(60,991)** | (58,098) | **(20,565)** | (20,552) |
| Sindh Sales Tax on management fee | 10.1 | **(7,929)** | (7,553) | **(2,674)** | (2,672) |
| Trustee remuneration | 11.1 | **(10,165)** | (9,683) | **(3,427)** | (3,425) |
| Sindh Sales Tax on trustee remuneration | 11.1 | **(1,321)** | (1,259) | **(445)** | (446) |
| Reversal of provision for Workers' Welfare Fund | | **-** | 3,469 | **-** | - |
| | | **(80,406)** | (73,124) | **(27,111)** | (27,095) |
| **Profit before change in fair value of investment property** | | **2,042,363** | 1,946,295 | **678,958** | 688,047 |
| Change in fair value of investment property | 6 | **1,127,354** | 1,026,726 | **-** | - |
| **Profit before taxation** | | **3,169,717** | 2,973,021 | **678,958** | 688,047 |
| Taxation | 14 | **-** | - | **-** | - |
| **Profit after taxation for the period** | | **3,169,717** | 2,973,021 | **678,958** | 688,047 |
| | | (Rupees) | | | |
| Earnings per unit - Distributable income | | **0.92** | 0.88 | **0.31** | 0.31 |
| Earnings per unit - Undistributable unrealised fair value gains | | **0.51** | 0.46 | **-** | - |
| **Earnings per unit - Basic and diluted** | 16 | **1.43** | 1.34 | **0.31** | 0.31 |

The annexed notes from 1 to 19 form an integral part of the condensed interim financial information.

Chief Financial Officer | Chief Executive Officer | Director

# Condensed Interim Statement of Comprehensive Income (Unaudited)

For the nine months period and quarter ended 31 March 2018

| | Nine months period ended | | Quarter ended | |
|---|---|---|---|---|
| | 31 March 2018 | 31 March 2017 | 31 March 2018 | 31 March 2017 |
| | (Rupees in '000) | | | |
| Profit after taxation for the period | **3,169,717** | 2,973,021 | **678,958** | 688,047 |
| Other comprehensive income | **-** | - | **-** | - |
| Total comprehensive income for the period | **3,169,717** | 2,973,021 | **678,958** | 688,047 |

The annexed notes from 1 to 19 form an integral part of the condensed interim financial information.

Chief Financial Officer | Chief Executive Officer | Director

# Condensed Interim Cash Flow Statement (Unaudited)

For the nine months period ended 31 March 2018

| | Nine months period ended | |
|---|---|---|
| | 31 March 2018 | 31 March 2017 |
| | (Rupees in '000) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **Profit before tax** | **3,169,717** | 2,973,021 |
| Adjustments for: | | |
| Change in fair value of investment property | **(1,127,354)** | (1,026,726) |
| Profit on deposits | **(89,725)** | (82,808) |
| | **1,952,638** | 1,863,487 |
| **Working capital changes** | | |
| Increase in current assets | | |
| - Rent receivables | **(15,175)** | (45,127) |
| - Advances, prepayments and other receivables | **(8,850)** | (6,156) |
| Increase in current liabilities | | |
| - Payable to the REIT management company | **1,311** | 2,154 |
| - Accrued expenses and other liabilities | **88,407** | 18,668 |
| **Cash generated from operations** | **2,018,331** | 1,833,026 |
| Taxes paid | **(3,448)** | (3,023) |
| Formation costs paid - net | **(54,916)** | (54,916) |
| Security deposits received - net | **60,793** | 40,355 |
| **Net cash generated from operations** | **2,020,760** | 1,815,442 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Profit on deposits received | **108,866** | 122,503 |
| Redemption of term deposit receipts | **-** | 700,000 |
| **Net cash generated from investing activities** | **108,866** | 822,503 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| **Net cash (used in) financing activities - Dividend paid** | **(3,891,475)** | (2,312,648) |
| Net (decrease) / increase in cash and cash equivalents during the period | **(1,761,849)** | 325,297 |
| Cash and cash equivalents at beginning of the period | **3,185,531** | 2,126,862 |
| Cash and cash equivalents at end of the period | **1,423,682** | 2,452,159 |

The annexed notes from 1 to 19 form an integral part of the condensed interim financial information.

Chief Financial Officer | Chief Executive Officer | Director

# Condensed Interim Statement of Changes in Unit Holders' Fund (Unaudited)

For the nine months period ended 31 March 2018

| | Units | Capital Reserves | | Sub total | Revenue Reserves | Total Reserves | Unit holders' fund |
|---|---|---|---|---|---|---|---|
| | | Premium on issue of units - net | Fair value reserve note 16.1.1 | | Unappropriated profit | | |
| | | (Rupees in '000) | | | | | |
| **Balance as at 30 June 2016** | 22,237,000 | 281,346 | 15,421,988 | 15,703,334 | 2,320,692 | 18,024,026 | 40,261,026 |
| **Transactions with owners** | | | | | | | |
| Cash dividend for the year ended 30 June 2016 (Rs. 1.04 per unit) | - | - | - | - | (2,312,648) | (2,312,648) | (2,312,648) |
| **Total comprehensive income for the period - profit for the period** | - | - | 1,026,726 | 1,026,726 | 1,946,295 | 2,973,021 | 2,973,021 |
| **Balance as at 31 March 2017** | 22,237,000 | 281,346 | 16,448,714 | 16,730,060 | 1,954,339 | 18,684,399 | 40,921,399 |
| **Balance as at 30 June 2017** | **22,237,000** | **281,346** | **16,602,964** | **16,884,310** | **2,614,188** | **19,498,498** | **41,735,498** |
| **Transactions with owners** | | | | | | | |
| Cash dividend for the year ended 30 June 2017 (Rs. 1.15 per unit) | - | - | - | - | (2,557,255) | (2,557,255) | (2,557,255) |
| Cash dividend for the period ended 30 September 2017 (Rs. 0.30 per unit) | - | - | - | - | (667,110) | (667,110) | (667,110) |
| Cash dividend for the period ended 31 December 2017(Rs. 0.30 per unit) | - | - | - | - | (667,110) | (667,110) | (667,110) |
| **Total comprehensive income for the period - profit for the period** | - | - | 1,127,354 | 1,127,354 | 2,042,363 | 3,169,717 | 3,169,717 |
| **Balance as at 31 March 2018** | **22,237,000** | **281,346** | **17,730,318** | **18,011,664** | **765,076** | **18,776,740** | **41,013,740** |

The annexed notes from 1 to 19 form an integral part of the condensed interim financial information.

Chief Financial Officer | Chief Executive Officer | Director

# Notes to the Condensed Interim Financial information (Unaudited)

For the nine months period and quarter ended 31 March 2018

## 1 STATUS AND NATURE OF BUSINESS

**1.1** Dolmen City REIT (the Scheme) was established under Trust Deed, dated 20 January 2015, executed between Arif Habib Dolmen REIT Management Limited (AHDRML), as the REIT Management Company (RMC) and Central Depositary Company of Pakistan Limited (CDCPL), as the Trustee; and is governed under the Real Estate Investment Trust Regulations, 2015 (REIT Regulations, 2015), promulgated and amended from time to time by the Securities and Exchange Commission of Pakistan (the SECP).

The Trust Deed of the Scheme was registered on 20 January 2015 whereas approval of the registration of the REIT Scheme has been granted by the SECP on 29 May 2015. The Scheme is a Perpetual, Closed-end, Shariah Compliant, Rental REIT. The Scheme is listed on Pakistan Stock Exchange Limited. The Scheme is rated "RR1" by JCR-VIS Credit Rating Company Limited. The registered office of the REIT Management Company is situated at Arif Habib Center, 23 M.T. Khan Road, Karachi.

**1.2** The Scheme is the subsidiary of International Complex Projects Limited (the ICPL). As at 31 March 2018, ICPL directly holds 75 percent units of the Scheme.

## 2 BASIS OF PREPARATION

**2.1** This condensed interim financial information of the Scheme for the nine months period ended 31 March 2018 has been prepared in accordance with the requirements of the International Accounting Standards 34 "Interim Financial Reporting" and provisions of and directives issued under the Companies Act, 2017, REIT Regulations, 2015 and directives issued by the SECP. In case, where requirements differ, the provisions of or directives issued under the Companies Act, 2017, REIT Regulations, 2015 or the directives issued by the SECP shall prevail.

This condensed interim financial information of the Scheme does not include all of the information required for annual financial statements and should be read in conjunction with the financial statements of the Scheme as at and for the year ended 30 June 2017. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Scheme's financial position and performance since the last financial statements.

This condensed interim financial information is being submitted to the unit holders as required by listing regulations of Pakistan Stock Exchange Limited vide section 237 of the Companies Act, 2017.

### 2.2 Basis of measurement

This condensed interim financial information have been prepared on the basis of 'historical cost convention' except investment property which is stated on fair value.

### 2.3 Functional and presentation currency

This condensed interim financial information is presented in Pakistan Rupees which is also the Scheme's functional currency and all financial information presented has been rounded off to the nearest thousand, except otherwise stated.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of the annual financial statements for the year ended 30 June 2017.

Certain amendments to existing standards and interpretations became effective during the period which are either not relevant or not having significant impact on this condensed interim financial information.

# Notes to the Condensed Interim Financial information (Unaudited)

For the nine months period and quarter ended 31 March 2018

## 4 ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the condensed interim financial information in conformity with approved accounting standards require management to make estimates, assumptions and use judgments that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognized prospectively commencing from the period of revision.

In preparing the condensed interim financial information, the significant judgments made by RMC in applying the Scheme's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the preceding financial statements of the Scheme as at and for the year ended 30 June 2017.

## 5 RISK MANAGEMENT

The Scheme's risk management objectives and policies are consistent with those objectives and policies which were disclosed in the financial statements as at and for the year ended 30 June 2017.

| | Note | Unaudited 31 March 2018 | Audited 30 June 2017 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **6 INVESTMENT PROPERTY** | | | |
| Carrying amount at beginning of the period | | **38,839,964** | 37,658,988 |
| Add: Change in fair value - unrealised | | **1,127,354** | 1,180,976 |
| Carrying amount at end of the period | 6.1 | **39,967,318** | 38,839,964 |

**6.1** The Investment property comprise of the buildings named as the "DOLMEN CITY MALL" and the "HARBOUR FRONT", comprising of two Basements (460,438 square feet), Ground floor (241,052 square feet), Mezzanine Floor (19,879 square feet), First floor (275,399 square feet), Second floor (272,972 square feet), Plant and Transformer Rooms (27,667 square feet), Third to Nineteenth floors (270,271 square feet) i.e. having a total covered area of 1,567,678 square feet with 15,201.68 square yards undivided share in the Plot bearing No. HC-3, Block 4, KDA, Scheme 5, Marine Drive, Karachi.

The investment property has been valued by MYK Associates (Private) Limited ('MYK' or 'the Valuer') as at 31 December 2017 and 30 June 2017. The Valuer used all prescribed approaches to value the investment property as per the clause 7 (a) of Schedule VI to the REIT Regulations, 2015. The valuations are summarised below:

| | 31 December 2017 | 30 June 2017 |
|---|---|---|
| | (Rupees in million) | |
| **Cost approach** | **20,889** | 20,965 |
| **Sales comparison approach** | **56,345** | 57,186 |
| **Income capitalization approach** | | |
| (a) Valuer's assessment of rental income – using 7% capitalization rate | **41,112** | 41,583 |
| (b) On projected Net Operating Income (NOI) based on existing rental agreements and expected rent for the vacant area – using 7% capitalization rate | **39,967** | 38,839 |

# Notes to the Condensed Interim Financial information (Unaudited)

For the nine months period and quarter ended 31 March 2018

The clause 7 (c) of Schedule VI to the REIT Regulations, 2015, states that the Valuer shall provide an explanation of the relative strengths and weakness of various approaches and explicitly state the approach that is most appropriate for the REIT Scheme. MYK in its valuation report has stated that out of three approaches identified in REIT Regulations, 2015 "Income Capitalization Approach" is generally based on the principle that the value of property reflects the quality and quantity of the income it is expected to generate over time. It is the most typical approach used for income producing properties i.e. rental properties. MYK has determined two values under Income Capitalization Approach as stated above, however recommended that the projected NOI based on existing rental agreements and expected rent for the vacant area is most appropriate for the Scheme. Accordingly, Investment Property has been valued in these financial statements under Income capitalization approach based on existing rental agreements and expected rent for the vacant area.

As of the last valuation date, the valuer assessed the forced sale value of the investment property to be Rs. 45.076 billion.

The fair value measurement for the investment property has been categorised as Level 3 fair value measurements which is considered as highest and best use of investment property.

| **Significant unobservable inputs** | **Sensitivity** | |
|---|---|---|
| | **Change in input** | **Effect on fair value (Rupees in '000)** |
| - Present revenue (based on exiting leasing contracts) | + 5% | 2,967,093 |
| - Present revenue (based on exiting leasing contracts) | - 5% | (2,967,093) |
| - Present operating costs (based on projected costs) | + 5% | (409,395) |
| - Present operating costs (based on projected costs) | - 5% | 409,395 |
| - Capitalization rate | + 1% | (5,982,349) |
| - Capitalization rate | - 1% | 5,345,974 |

| | **Unaudited 31 March 2018** | **Audited 30 June 2017** |
|---|---|---|
| | **(Rupees in '000)** | |
| **7 RENT RECEIVABLES** | | |
| **Unsecured** | | |
| Considered good | **106,310** | 91,135 |
| Considered doubtful | **25,669** | 25,669 |
| | **131,979** | 116,804 |
| Less: Provision for doubtful balances | **(25,669)** | (25,669) |
| | **106,310** | 91,135 |

# Notes to the Condensed Interim Financial information (Unaudited)

For the nine months period and quarter ended 31 March 2018

| | Note | Unaudited 31 March 2018 | Audited 30 June 2017 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **8 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES** | | | |
| **Unsecured - Considered good** | | | |
| Security deposit | | **944** | 837 |
| Prepayments | | **8,743** | - |
| Advance tax | | **260,662** | 257,214 |
| | | **270,349** | 258,051 |
| **Considered doubtful - unsecured** | | **4,728** | 4,728 |
| | | **275,077** | 262,779 |
| Less: Provision for doubtful balances | | **(4,728)** | (4,728) |
| | | **270,349** | 258,051 |
| **9 BANK BALANCES** | | | |
| Term deposit receipts | 9.1 | **1,100,000** | 2,502,342 |
| Saving accounts | 9.2 | **321,196** | 680,953 |
| Current account | | **2,486** | 2,236 |
| | | **1,423,682** | 3,185,531 |

**9.1** This represents term deposit receipts with Islamic bank and this carry expected profit rate of 6.10% (30 June 2017: 5.95 % ) per annum with maturity of three months.

**9.2** These represent deposits held in riba free saving accounts carrying expected profit rates ranging from 2.05% to 5.50% (30 June 2017: 2.05% to 5.56%) per annum.

| | Note | Unaudited 31 March 2018 | Audited 30 June 2017 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **10 PAYABLE TO REIT MANAGEMENT COMPANY** | | | |
| Management fee payable | | **20,566** | 19,360 |
| Sindh Sales Tax | | **4,360** | 4,255 |
| | 10.1 | **24,926** | 23,615 |
| Current portion of formation costs | | **54,916** | 54,916 |
| | | **79,842** | 78,531 |

**10.1** Under the provisions of REIT Regulations, 2015, RMC is entitled to a management fee not exceeding three percent of NOI of the Scheme. The management fee is payable on quarterly basis in arrears. The Sindh Government has levied Sindh Sales Tax on the remuneration of the RMC through Sindh Sales Tax on Services Act, 2011, effective from 1 July 2014. However the rate has been reduced from 14% to 13% effective from 1 July 2016.

# Notes to the Condensed Interim Financial information (Unaudited)

For the nine months period and quarter ended 31 March 2018

| | Note | Unaudited 31 March 2018 | Audited 30 June 2017 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **11 ACCRUED EXPENSES AND OTHER LIABILITIES** | | | |
| Trustee remuneration | 11.1 | **11,487** | 14,588 |
| Provision for government levies | | **997** | 4,000 |
| Monitoring fee payable to SECP | | **16,678** | 22,237 |
| Payable to associated undertakings | | **33,944** | 23,065 |
| Unearned rental income | | **94,482** | 92,788 |
| Sales tax and withholding income tax | | **46,535** | 48,719 |
| Charity payable | | **2,486** | 2,486 |
| Federal Excise Duty | 11.2 | **11,980** | 11,980 |
| Takaful fee | | **-** | 2,143 |
| Accrued expenses and other liabilities | | **76,126** | 27,486 |
| Unclaimed dividend | | **45,527** | 2,343 |
| | | **340,242** | 251,835 |

**11.1** The Trustee is entitled to a remuneration for services rendered at a rate of 0.6% of the NOI under the provisions of the REIT Regulations, 2015. However, the Trustee charged remuneration at a rate of 0.5% of the NOI during the period. The Sindh Government levied Sindh Sales Tax on the remuneration of the Trustee through Sindh Sales Tax on Services Act, 2011, effective from 1 July 2015. However the rate has been reduced from 14% to 13% effective from 1 July 2016.

**11.2** As per the requirement of Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the RMC has been applied. The RMC is of the view that since the remuneration is already subject to provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law.

The Honorable Sindh High Court (SHC) through its order dated 2 June 2016, in CPD-3184 of 2014 (and others) filed by various taxpayers, has inter alia declared that Federal Excise Act, 2005 (FED Act) is on services, other than shipping agents and related services, is ultra vires to the Constitution from 01 July 2011. However, the declaration made by the SHC, as directed, will have effect in the manner prescribed in the judgment. The SHC in its decision dated 16 July 2016 in respect of constitutional petition filed by management companies of mutual funds maintained the previous order on the FED.

The Sindh Revenue Board and the Federal Board of Revenue have filed appeals before Supreme Court of Pakistan (SCP) against the SHC's decision dated 2 June 2016, which is pending for decision. With effect from 01 July 2016, FED on services provided or rendered by Non-Banking Financial Institutions dealing in services which are subject to provincial sales tax has been withdrawn by Finance Act, 2016. Therefore, the Scheme has discontinued making the provision in this regard. As a matter of abundant caution, without prejudice to the above, an accumulated provision of Rs. 11.980 million has been maintained in the Scheme's condensed interim financial information.

## 12 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments as at 31 March 2018.

# Notes to the Condensed Interim Financial information (Unaudited)

For the nine months period and quarter ended 31 March 2018

## 13 ADMINISTRATIVE AND OPERATING EXPENSES

| | Nine months period ended | | Quarter ended | |
|---|---|---|---|---|
| | 31 March 2018 | 31 March 2017 | 31 March 2018 | 31 March 2017 |
| | (Rupees in '000) | | | |
| SECP Monitoring fee | **16,678** | 16,678 | **5,559** | 5,559 |
| Property management fee | **153,240** | 142,287 | **48,622** | 46,344 |
| Ancillary income collection fee | **22,779** | 17,357 | **9,277** | 5,249 |
| Common area maintenance charges | **12,058** | 7,107 | **3,957** | 493 |
| Legal and professional charges | **2,818** | 5,060 | **1,186** | 886 |
| Utility expenses | **694** | 812 | **509** | 272 |
| Marketing expenses | **40,254** | 35,180 | **5,977** | 6,947 |
| Takaful fee | **17,797** | 21,925 | **5,846** | 7,228 |
| Property and advertisement taxes | **14,117** | 7,543 | **4,572** | 4,335 |
| Auditors' remuneration | **1,654** | 1,833 | **418** | 300 |
| Renovation expense | **87,573** | 17,329 | **51,049** | 3,824 |
| Health check survey | **-** | 3,937 | **-** | 2,774 |
| Others | **4,951** | 2,737 | **977** | 302 |
| | **374,613** | 279,785 | **137,949** | 84,513 |

## 14 TAXATION

The Scheme's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Provided that for the purpose of determining distribution of not less than 90% of its accounting income for the year, the income distributed through bonus units shall not be taken into account.

The Board of Directors of the RMC intends to distribute more than ninety percent of the Scheme's accounting income for the year ending 30 June 2018 as reduced by capital gains (whether realised or unrealised) to its unit holders in the form of cash to avail the exemption. Accordingly, no tax provision has been made in the condensed interim financial information for the period ended 31 March 2018.

## 15 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties include Arif Habib Dolmen REIT Management Limited being the Management Company, Central Depository Company of Pakistan Limited, being the Trustee to the Scheme, MYK Associates (Private) Limited being valuer, International Complex Projects Limited being the Holding Company, Dolmen Real Estate Management (Private) Limited, being property manager for rent collection, ancillary income collection and common area maintenance charges, connected person, associated companies, directors and key executives of the RMC, trustee, valuer and promoter of RMC.

The services provided under REIT Regulations or the trust deed or offering document, by the RMC, Trustee, Valuer, Property Manager shall not be deemed related party transaction.

Transactions with related parties are in the normal course of business, at contracted rates and terms determined in accordance with commercial rates.

There are no potential conflicts of interest of the related party with respect to the Scheme.

Details of the transactions with related parties and balances with them, if not disclosed elsewhere in these condensed interim financial information, are as follows:

# Notes to the Condensed Interim Financial information (Unaudited)

For the nine months period and quarter ended 31 March 2018

| | Nine months period ended | |
|---|---|---|
| | 31 March 2018 | 31 March 2017 |
| | (Rupees in '000) | |
| **15.1 Transactions during the period:** | | |
| **International Complex Projects Limited** | | |
| - Rental income | **30,969** | 28,154 |
| - Purchase of equipment for maintenance | **4,009** | - |
| - Payment against purchase of equipment for maintenance | **204** | - |
| **Dolmen Real Estate Management (Private) Limited - Property Manager** | | |
| - Common area maintenance charges | **12,058** | 7,107 |
| - Expenses incurred on behalf of Scheme | **529** | - |
| - Reimbursement of expenses incurred on behalf of Scheme | **734** | - |
| **Retail Avenue (Private) Limited** | | |
| - Rental income | **5,965** | 5,423 |
| **Sindbad Wonderland (Private) Limited** | | |
| - Rental income | **20,763** | 18,876 |
| **Summit Bank Limited** | | |
| - Rental income | **24,451** | 21,911 |

| | Unaudited 31 March 2018 | Audited 30 June 2017 |
|---|---|---|
| | (Rupees in '000) | |
| **15.2 Amounts outstanding as at period end** | | |
| **International Complex Projects Limited** | | |
| - Rent receivable | **171** | 171 |
| - Net payable in respect of purchase consideration of investment property | **1,819** | 1,819 |
| - Payable against purchase of equipment for maintenance | **3,804** | - |
| **Dolmen Real Estate Management (Private) Limited - Property Manager** | | |
| - Common area maintenance charges | **12,075** | - |
| - Expenses payable incurred on behalf of Scheme | **89** | - |
| **Retail Avenue (Private) Limited** | | |
| - Rent receivable | **66** | 668 |
| **Sindbad Wonderland (Private) Limited** | | |
| - Rent receivable | **466** | 466 |
| **Summit Bank Limited** | | |
| - Rent receivable | **1,136** | 1,004 |

# Notes to the Condensed Interim Financial information (Unaudited)

For the nine months period and quarter ended 31 March 2018

## 16 EARNINGS PER UNIT - BASIC AND DILUTED

| | Note | Nine months period ended | | Quarter ended | |
|---|---|---|---|---|---|
| | | **31 March 2018** | 31 March 2017 | **31 March 2018** | 31 March 2017 |
| | | (Rupees in '000) | | | |
| Profit after taxation | | **3,169,717** | 2,973,021 | **678,958** | 688,047 |
| | | (Number of Units) | | | |
| Weighted average number of ordinary units during the period | | **2,223,700,000** | 2,223,700,000 | **2,223,700,000** | 2,223,700,000 |
| | | (Rupees) | | | |
| Earnings per unit - Basic and diluted | 16.1 | **1.43** | 1.34 | **0.31** | 0.31 |

### 16.1 Earnings per unit comprises as follows:

| | | | | | |
|---|---|---|---|---|---|
| Distributable income - earnings per unit | | **0.92** | 0.88 | **0.31** | 0.31 |
| Undistributable unrealised fair value gains - | | **0.51** | 0.46 | **-** | - |
| earnings per unit | 16.1.1 | **1.43** | 1.34 | **0.31** | 0.31 |

**16.1.1** Under the provisions of Trust Deed, the amount available for distribution shall be total of income and realised gain net off expenses. Accordingly, unrealised fair value gain is not distributable.

## 17 FAIR VALUES

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 at the measurement date.

Underlying the definition of fair value is the presumption that the Scheme is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Fair value of investment property is shown under note no. 6.

The Scheme has not disclosed the fair values of all financial assets and financial liabilities (loans and receivables), as these are either short term in nature or reprice periodically. Therefore, their carrying amounts are reasonably approximation of fair value.

## 18 NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors of the RMC in their meeting held on 18 April 2018 have declared and approved an interim cash dividend for the quarter ended 31 March 2018 of Re. 0.30 per unit amounting to Rs. 667.11 million. This condensed interim financial information do not include the effect of above which will be accounted for in the period in which it is approved.

## 19 DATE OF AUTHORISATION FOR ISSUE

The condensed interim financial information was authorised for issue by the Board of Directors of the RMC on 18 April 2018.

Chief Financial Officer | Chief Executive Officer | Director

ARIF HABIB DOLMEN
REIT MANAGEMENT LIMITED

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