MEFIC REIT FUND
Managed by
MIDDLE EAST FINANCIAL INVESTMENT COMPANY
FINANCIAL STATEMENTS
For the year ended 31 December 2019
together with the
INDEPENDENT AUDITOR'S REPORT

INDEX TO THE FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
For the year ended 31 December 2019

BDO الدكتور محمد العمري وشركاه
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INDEPENDENT AUDITOR`S REPORT

To: **The Unit holders of**
MEFIC REIT FUND
Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the financial statements of **MEFIC REIT Fund** (the "Fund") managed by Middle East Financial Investment Company (the "Fund Manager") which comprise the statement of financial position as at 31 December 2019 and the statements of comprehensive income, changes in net assets attributable to unit holders and cash flows for the year then ended, and notes 1 to 25 to the financial statements, including significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements endorsed by Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund and Fund manager in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters include:

Revenue recognition	
Key audit matter	***How the matter was addressed in our audit***
Revenue comprise of rental income from investments properties. Revenue recognition is considered a key audit matter as the timing and amount of revenue recognized in a financial period can have a material effect on the financial performance.	Our procedures included • Review of revenue recognition accounting policy. • Substantive tests of transactions on a sample basis. • Testing revenue cut-off at the period end and an analytical review of revenue.
Refer to note (4g) for accounting policy.	

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Key audit matters (Continued)

Valuation of investment properties	
Key audit matter	***How the matter was addressed in our audit***
Investments properties comprise a portfolio of Five investment properties and Three intangible assets, in Kingdom of Saudi Arabia and United Arab Emirates. These investments are stated at cost less accumulated depreciation/amortization and impairments if any. For assessing the impairments of investments properties, the fund's management monitors volatility of fair value of properties by engaging independent certified property valuators to perform a formal valuation of the fund's investments properties as at the reporting date. We considered this as a key audit matter given the significance of the valuation on the financial statements.	Our procedures included • Ensuring initial recognition and subsequent measurement of investment properties as per IFRS. • Performing impairment test to assess recoverable amounts of investment properties and determining impairment charge if any. • An assessment of the appropriateness of the valuation technique used to value the investments.
Refer to note (4h) for accounting policy and note 6 for relevant disclosure.	

Other information

Management is responsible for the other information. The other information in the annual report comprises Fund Managers' report to unit holders but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the management and Those Charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements endorsed by SOCPA, requirements of the Real Estate Investment Fund Regulations as published by Capital Market Authority ("CMA") in Kingdom of Saudi Arabia and Fund's term and condition with respect to the preparation and presentation of financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund`s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Those Charged with Governance, in particular the Audit Committee, are responsible for overseeing the Fund`s financial reporting process.

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Auditor's responsibilities for the audit of the financial statement

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund Manager`s/Fund`s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund`s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management and Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Those Charged with Governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on other legal and regulatory requirements

Further, we confirm that in our opinion the accompanying financial statements of the Fund comply, in all material respects, with the requirements of the Real Estate Investment Fund Regulations published by CMA in the Kingdom of Saudi Arabia and the Fund's terms and conditions with respect to the preparation and presentation of the financial statements.

For Dr. Mohamed Al-Amri & Co.

Gihad M. Al-Amri
Certified Public Accountant
Registration No. 362

د. محمد العمري وشركاه - محاسبون قانونيون
س. ت : ١٠١٠٤٢٢٩٨٢
Riyadh
Certified Public Accountants
Dr. Mohamed Al-Amri & Co.

Riyadh, on 31 March 2020G
Corresponding to: 7 Sha'ban 1441H

MEFIC REIT FUND
Managed by Middle East Financial Investment Company
STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(Saudi Riyals)

	Notes	31 December 2019	31 December 2018
ASSETS			
Investment properties	5	**962,611,573**	970,531,804
Intangible assets - right of benefit	6	**219,697,453**	238,667,491
Right of use asset	7	**117,709,869**	-
Accounts receivable	8	**47,911,512**	38,716,544
Prepaid expenses and other receivables		**1,814,280**	1,009,105
Cash and cash equivalent	9	**2,288,484**	4,744,218
Total assets		**1,352,033,171**	1,253,669,162
LIABILITIES			
Long term loans	10	**302,322,486**	274,938,849
Accounts payable	11	**128,682,879**	158,682,879
Lease liabilities	12	**121,253,695**	-
Contract liability	13	**27,660,018**	46,685,551
Fund Manager transaction fee	19	**11,946,885**	11,946,885
Accrued expenses and other liabilities	14	**3,084,978**	3,344,282
Finance charges payable	10	**2,828,901**	4,229,675
Total liabilities		**597,779,842**	499,828,121
Net assets attributable to unit holders		**754,253,329**	**753,841,041**
Units in issue – numbers		**73,276,800**	**73,276,800**
Net assets value - per unit		**10.2932**	**10.2876**
Contingences and commitments	16		

The accompanying notes from 1 to 25 form an integral part of these financial statements.

MEFIC REIT FUND

Managed by Middle East Financial Investment Company

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(Saudi Riyals)

	Notes	For the year ended 2019	For the period from 1 October to 31 December 2018
INCOME			
Rental income		**95,753,865**	23,534,194
Total income		**95,753,865**	23,534,194
EXPENSES			
Financing cost	10	**(17,095,974)**	(5,326,378)
Financing Cost - Fund manager arrangement fee		-	(3,280,000)
Amortization of right of benefit	6	**(18,970,038)**	(4,742,509)
Depreciation of investment properties	5	**(4,806,387)**	(1,201,597)
Depreciation of right of use assets	7	**(10,781,860)**	-
Financing cost on lease liabilities	12	**(3,061,966)**	-
Operating expense	15	**(8,925,208)**	(2,856,383)
Total expenses		**(63,641,433)**	(17,406,867)
Operating profit		**32,112,432**	6,127,327
Other non-operating income/losses			
Bad debts provision	8	**(3,163,408)**	-
Impairment of Investment in properties	5	**(3,113,844)**	(7,893,817)
Other income	18	**2,144,707**	22,839,531
Profit for the year/period		**27,979,887**	21,073,041
Other comprehensive income		-	-
Total comprehensive income		**27,979,887**	21,073,041

The accompanying notes from 1 to 25 form an integral part of these financial statements.

MEFIC REIT FUND
Managed by Middle East Financial Investment Company
STATEMENT OF CHANGE IN ASSETS ATTRIBUTABLE TO UNIT'S HOLDER
For the year ended 31 December 2019
(Saudi Riyals)

	For the year ended 2019	For the period from 1 October to 31 December 2018
Net assets value at beginning of the period	**753,841,041**	**-**
Total comprehensive income	**27,979,887**	21,073,041
Proceeds from issuance of units – cash	-	404,568,000
Proceeds from issuance of units - in kind	-	328,200,000
Less: dividends	**(27,567,599)**	**-**
Net assets value at 31 December	**754,253,329**	753,841,041

UNIT TRANSACTIONS	**2019**	**For the period from 1 October to 31 December 2018**
Units at the beginning of the period	**73,276,800**	**-**
Changes from unit transactions		
Unit issued during the period	-	73,276,800
Unit redeemed during the period	-	**-**
Net units at the end of the period	**73,276,800**	73,276,800

The accompanying notes from 1 to 25 form an integral part of these financial statements.

MEFIC REIT FUND
Managed by Middle East Financial Investment Company
STATEMENT OF CASH FLOWS
For the year ended 31 December 2019
(Saudi Riyals)

	Notes	For the year ended 2019	For the period from 1 October to 31 December 2018
Cash flow from operating activity			
Net income for the period		**27,979,887**	21,073,041
Adjustments for non-cash items:			
Depreciation of investment properties	5	**4,806,387**	1,201,597
Amortization of right of benefit	6	**18,970,038**	4,742,509
Depreciation of right of use assets	7	**10,781,860**	-
Finance cost on lease liabilities	12	**3,061,966**	-
Impairment of trade receivables	8	**3,163,408**	-
Impairment of Investment in properties	5	**3,113,844**	7,893,817
		71,877,390	34,910,964
Changes in operating assets and liabilities:			
Accounts receivable		**(12,358,376)**	(38,716,544)
Prepaid expenses and other receivables		**(805,175)**	(1,009,105)
Accounts payable		**(30,000,000)**	47,804,874
Contract liability		**(19,025,533)**	(7,657,040)
Fund Manager transaction fee		-	11,946,885
Accrued expenses and other liabilities		**(259,304)**	3,344,282
Financing cost		**(1,400,774)**	4,229,675
Net cash generated by operating activities		**8,028,228**	54,853,991
Cash flow from investments activity			
Purchase of investments - cash		-	(729,616,622)
Net cash used in investments activities		-	(729,616,622)
Cash flow from financing activity			
Proceeds from subscription of units		-	404,568,000
Dividends paid		**(27,567,599)**	-
Repayment of lease hold liability	12	**(10,300,000)**	-
Loans proceed during the period		**27,383,637**	274,938,849
Net cash generated from financing activities		**(10,483,962)**	679,506,849
Net increase in cash and cash equivalent		**(2,455,734)**	4,744,218
Cash and cash equivalent at beginning of the period		**4,744,218**	-
Cash and cash equivalent at 31 December		**2,288,484**	4,744,218

The accompanying notes from 1 to 25 form an integral part of these financial statements.

1. THE FUND AND ITS ACTIVITIES

MEFIC REIT Fund (the "Fund") is a close-ended real estate shariah compliant investment listed fund established and managed by Middle East Financial Investment Company (the "Fund Manager") A Saudi closed joint stock company with commercial registration number 1010237038 and Authorized by CMA under license number 06029-37.

The Fund is listed in Saudi Stock Exchange Market ("Tadawul") and the units of the REIT is traded under its laws and regulations. The capital of the fund is SR 732,768,000 divided to into 73,276,800 units of 10 SR each. The fund has a term of 99 years, which is extendable on the discretion of the Fund Manager following the approval of CMA.

The Fund's primary investment objective is to provide its investors with regular income by investing in income-generating real estate properties in Saudi Arabia and Arabian Gulf Countries.

A brief summary of investment properties and rights of benefits acquired during the year are as follows:

Investment properties

Commercial Mall Riyadh (Previously referred to as Souq Sharq): Commercial Mall Riyadh comprises a retail plaza with 187 shops. There are 21 buildings in this property. The property is occupied by furniture showrooms, coffee shop and others. The property is located in Eastern Ring Road in Al-Jazira district in Riyadh, Kingdom of Saudi Arabia.

Commercial Tower Jeddah (Previously referred to as Tihama): Commercial Tower in Jeddah comprises 10 showrooms and office area. It constitutes 6 floors. The property is located in Al-Andalus Road, Al Hamra District, Jeddah.

Drnef Ajyad: A four-star hotel located in Ajyad Road, Makkah Mukarramah. It has 203 rooms and 11 suites.

Drnef Kuddai: A three-stars hotel located in Al-Kudai District of Makkah on the third ring road. The hotel features 75 rooms in addition to 11 suites.

The PAD: MEFIC REIT owns 30 apartments in The PAD tower in Dubai.

Right of benefits

Plaza 1: Plaza 1 is a mixed use development spreading over a land area of 9,588 sq meters. The project has a leasable area of 12,000 sq meters including 51 apartments and 12 showrooms. It is located on King Abdul Aziz Road, Al-Rabiea District, Riyadh. The right of benefit of this property will end on 17 July 2026.

Plaza 2: Plaza 2 is a retail strip comprising showrooms and residential units. It includes 87 apartments and 7 showrooms. It is located on King Abdullah Road, Ar-Rhamaniya District, Riyadh. The right of benefit of this property will end on 29 March 2036.

Dhiyapah: Dhiyapah is a commercial retail property including 9 restaurants and ladies gym & spa. It is located on the Northern Ring Road in Al-Nakheel District, Riyadh. The right of benefit of this property will end on 1 April 2035.

2. REGULATORY FRAMEWORK

The Fund is governed by Real Estate Investment Traded Funds Instructions as published by CMA up to 13 Safar 1440H (corresponding to 22 October 2018G) and by the Investment Funds Regulations as amended by CMA up to 16 Sha`ban 1437H (corresponding to 23 May 2016G) detailing requirements for private investment funds operating in the Kingdom of Saudi Arabia.

3. BASIS OF PREPARATION

3.1 Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organisation for Certified Public Accountants (SOCPA), Capital Market Authority (CMA) and the Fund's Terms and Conditions, so far as they relate to the preparation and presentation of the financial statements of the Fund.

3.2 Basis of measurement

These financial statements have been prepared under the historical cost convention and following the accruals basis of accounting except for cash flow information and going concern basis.

The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of liquidity.

3.3 Functional and presentation currency

These financial statements have been presented in Saudi Riyals (SR), which is the functional and presentation currency of the Fund. All financial information has been rounded to the nearest Saudi Riyal.

3.4 Financial year

The financial year of the Fund commences on 1 January and ends on 31 December of each calendar year

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been adopted by the Fund and applied consistently throughout all periods presented in these financial statements:

a) **Cash and cash equivalents**
Cash and cash equivalents comprise of cash in hand, cash at bank and custodian and other short-term highly liquid investments with original maturities of three months or less, which are available to the Fund without any restriction.

b) **Fund management fee and other expenses**
Fund management fee and other expenses are measured and recognized as a period cost at the time when they are incurred.

c) **Provisions**
Provisions are recognized whenever there is present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

d) **Zakat and Income Tax**
Zakat and Income Tax are the obligation of the Unit Holders and have not been provided for in these financial statements.

SIGNIFICANT ACCOUNTING POLICIES (continued)

e) **Net asset value**
The net assets value per unit disclosed in the statement of financial position is calculated by dividing the net assets of the Fund by the number of units in issue at the period-end.

f) **Financial instruments**
Financial instruments are recognized when the Fund becomes a party to the contractual provisions of the instrument. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets
The Fund determines the classification of its financial assets at initial recognition. The classification depends on the Fund`s business model for managing the financial assets and the contractual terms of the cash flows.

(I) Classification
The financial assets are classified in the following measurement categories:
a) Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
b) Those to be measured at amortized cost.

For assets measured at fair value, gains and losses will be recorded in the statement of comprehensive income. For investments in equity instruments, this will depend on whether the Fund has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(II) Measurement
At initial recognition, the Fund measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income as incurred.

Debt Instrument
Subsequent measurement of debt instruments depends on the Fund's business model for managing the asset and the cash flow characteristics of the asset. The Fund classifies debt instruments at amortized cost based on the below:

a) The asset is held within a business model with the objective of collecting the contractual cash flows; and
b) The contractual terms give rise on specified dates to cash flows that are solely payments of principal and commission on the principal outstanding.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective commission rate (“ECR”).

SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity Instrument
If the Fund elects to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments shall continue to be recognized in the statements of comprehensive income as other income when the Fund's' right to receive payments is established. There are no impairment requirements for equity investments measured at fair value through profit or loss. Changes in the fair value of financial assets at fair value through profit or loss shall be recognized in other gain/ (losses) in the statements of comprehensive income as applicable.

(III) De-recognition of financial assets
The Fund derecognizes a financial asset when the contractual rights to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognizes its retained interest in the asset and associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of the transferred financial asset, the Fund continues to recognize the financial asset and also recognizes a collateralized financing for the proceeds received.

(IV) Impairment of Financial Assets
The Fund applies expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets and credit risk exposure that are debt instruments and are measured at amortized cost e.g., loans, deposits, receivables. An expected credit loss is the probability-weighted estimate of credit losses (i.e. present value of all cash shortfalls) over the expected life of the financial asset. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that the Fund expects to receive. The expected credit losses consider the amount and timing of payments and hence, a credit loss arises even if the Fund expects to receive the payment in full but later than when contractually due. The expected credit loss method requires assessing credit risk, default and timing of collection since initial recognition. This requires recognizing allowance for expected credit losses in the statements of comprehensive income even for receivables that are newly originated or acquired.

Impairment of financial assets is measured as either 12 month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. '12 month expected credit losses' represent the expected credit losses resulting from default events that are possible within 12 months after the reporting date. 'Lifetime expected credit losses' represent the expected credit losses that result from all possible default events over the expected life of the financial asset.

The Fund uses the practical expedient in IFRSs 9 for measuring expected credit losses for receivables or investments using a provision matrix based on ageing of receivables. The Fund uses historical loss experience and derived loss rates based on the past twelve months and adjust the historical loss rates to reflect the information about current conditions and reasonable and supportable forecasts of future economic conditions. The loss rates differ based on the ageing of the amounts that are past due and are generally higher for those with the higher ageing.

SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Financial liabilities
The Fund determines the classification of its financial liabilities at initial recognition.

(I) Classification
The financial liabilities are classified in the following measurement categories:
a) Those to be measured at fair value through profit or loss,
b) Those to be measured at amortized cost

(II) Measurement
All financial liabilities are recognized initially at fair value. Financial liabilities accounted at amortized cost like loans and financings are accounted at the fair value determined based on the effective commission rate method ("ECR") after considering the directly attributable transaction costs.

The effective commission rate ("ECR") method is a method of calculating the amortized cost of a debt instrument and of allocating commission charge over the relevant effective commission rate period. The effective commission rate is the rate that exactly discounts estimated future cash outflow (including all fees and points paid or received that form an integral part of the effective commission 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. This category generally applies to financings, payables etc.

The Fund's financial liabilities include management and other payables. Subsequently, the Fund classifies all financial liabilities at amortized cost, except for financial liabilities at fair value through profit or loss which are measured at fair value.

(III) De-recognition of financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

iii) Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

g) **Revenue recognition**
Rent income from investment properties are recognized when the right to receive income is established. Income from intangible assets is also recognized on the same basis i.e. right to receive is established as per rights of benefits acquired.

h) **Investment properties**
Investment properties are those which are held either to earn rental income or for capital appreciation or for both. Since the investment properties are all acquired in exchange for a combination of monetary and non-monetary assets, they are initially recognized at fair value plus any directly attributable expenditure including transaction costs. Subsequent measurements are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged so as to write-off the cost less estimated residual value over their estimated useful lives, using the straight-line method. Land is excluded for depreciation purposes.

SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Intangibles

Intangibles are stated at cost less accumulated depreciation or amortization and impairment losses if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of asset. All other expenditures are recognized in the statement of comprehensive income when incurred.
Amortization is charged to the statement of comprehensive income on a straight-line basis over the estimated useful life of individual item.

j) Critical accounting estimates and judgment

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual result may differ from these estimates. Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below:

(i) Impairment reviews

IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgment, requiring inter alia an assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

a) growth in earnings before commission, tax, depreciation and amortization (EBITDA), calculated as adjusted operating profit before depreciation and amortization;
b) timing and quantum of future capital expenditure;
c) long-term growth rates;
d) selection of discount rates to reflect the risks involved; and
e) quantum of mining reserves expected to be extracted over the period under consideration.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results.

(ii) Estimation of useful life and residual value

The useful life used to amortize or depreciate intangible assets or property, plant and equipment respectively relates to the expected future performance of the assets acquired and management's judgement based on technical evaluation of the period over which economic benefit will be derived from the asset. The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. An asset's expected life residual value has a direct effect on the depreciation charged in the profit or loss.

SIGNIFICANT ACCOUNTING POLICIES (continued)

The useful lives and residual values of Group's assets are determined by management based on technical evaluation at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life such as changes in technology.

(iii) Impairment losses on trade receivables
Trade receivables are stated at their amortized cost as reduced by appropriate allowances for estimated irrecoverable amounts. Estimated irrecoverable amounts are determined using the expected credit loss method. Individual trade receivables are written off when management deems them not to be collectible.

***k)* Changes in significant accounting policy**
The Company adopted IFRS 16 Leases from 1 January 2019. The effect of initially applying this standard is mainly attributed to a recognition of Right-of-use assets which were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.
As per IFRS 16, the Company assesses whether a contract contains a lease, at inception of the contract. For all such lease arrangements the Company recognizes right of use assets and lease liabilities except for the short term leases and leases of low value assets as follows:
Right-of-use assets

The Fund recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Fund is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Fund recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Fund and payments of penalties for terminating a lease, if the lease term reflects the Fund exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.
In calculating the present value of lease payments, the Fund uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact on adoption of IFRS 16

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Fund is the lessor.

In the current year, the Fund has adopted IFRS 16 using the modified retrospective method of adoption at the date of initial application of 1 January 2019 in accordance with paragraph C5(b) and C8(b) of IFRS 16.

The Fund elected to use the practical expedient available on transition to IFRS 16 not to reassess whether a contract contains a lease or not, allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Fund also adopted the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use assets and liabilities for leases that are expiring during 2019.
- Excluded initial direct cost from measuring the right-of-use asset at the date of initial application.
- The Fund also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’).

Prior to adoption of IFRS 16:

The Fund has lease contracts for various items of land and buildings. Before the adoption of IFRS 16, the Fund classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease based on the substance of the arrangement at the inception date.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership. At the commencement date of leases term, lessees recognize finance leases as assets and liabilities at an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

In an operating lease, the leased property was not capitalized and the lease payments were recognised as operating expense in profit or loss on a straight-line basis over the lease term. Any prepaid and accrued amounts were recognised under prepayments and other payables, respectively.

After adoption of IFRS 16:

Upon adoption of IFRS 16, the Fund applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Fund recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the modified retrospective method of adoption, the Fund applied IFRS 16 at the date of initial application. Under modified retrospective approach right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. Accordingly, the comparative information is not restated.

The change in accounting policy did not affect the statement of financial position on 1 January 2019 as the prior period was for three months and related impacts of adoption are all taken in current period.

(Saudi Riyals)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial impact of adoption IFRS 16 is as follows:

Impact on statement of comprehensive income

	For the year ended 31 December 2019
Depreciation expense	**6,372,412**
Rent expense	**(3,109,093)**
Operating profit	**3,263,319**
Finance cost	**500,503**
Net impact	**3,763,822**

	For the year ended 31 December 2019		
	Before application of IFRS 16	Impact	After application of IFRS 16
Finance cost	**17,095,974**	**3,061,966**	**20,157,940**
Depreciation	**4,806,387**	**10,781,861**	**15,588,248**

5. INVESTMENT PROPERTIES

The composition of investment properties as the reporting date is as below:

As at 31 December 2019

	Cost					
Properties	Land	Building	Total	Accumulated depreciation	Impairment	Net book value
Drnef Ajyad	**69,094,413**	**58,210,587**	**127,305,000**	**(1,819,082)**	-	**125,485,918**
Drnef Kuddai	**27,002,638**	**31,992,362**	**58,995,000**	**(999,761)**	-	**57,995,239**
Tihama	**37,177,236**	**8,272,764**	**45,450,000**	**(258,524)**	-	**45,191,476**
Souq Sharq	**587,870,252**	**93,779,748**	**681,650,000**	**(2,930,617)**	-	**678,719,383**
The PAD	**9,934,082**	**48,399,319**	**58,333,401**	-	**(3,113,844)**	**55,219,557**
	731,078,621	**240,654,780**	**971,733,401**	**(6,007,984)**	**(3,113,844)**	**962,611,573**

As at 31 December 2018

	Cost					
Properties	Land	Building	Total	Accumulated depreciation	Impairment	Net book value
Drnef Ajyad	69,094,413	58,210,587	127,305,000	(363,817)	-	126,941,183
Drnef Kuddai	27,002,638	31,992,362	58,995,000	(199,952)	-	58,795,048
Tihama	37,177,236	8,272,764	45,450,000	(51,705)	-	45,398,295
Souq Sharq	587,870,252	93,779,748	681,650,000	(586,123)	-	681,063,877
The PAD	9,934,082	56,293,136	66,227,218	-	(7,893,817)	58,333,401
	731,078,621	248,548,597	979,627,218	(1,201,597)	(7,893,817)	970,531,804

The percentage used to allocate the cost between Land and building were determined by the independent evaluator. The Pad property not completed yet so that there is no depreciation charge for this period, the property has significant impairment in its value as per the independent valuators reports. The depreciation of all investment properties was calculated using straight-line method over 40 years.

(Saudi Riyals)

INVESTMENT PROPERTIES (continued)

Fair value of investment properties
The fair values of investments properties as determined by two independents valuers Amaken Valuation Company (Valuer 1) and Taqdeer Company for Real Estate (Valuer 2) as at the reporting date are given below. Both of these valuers are members of the Saudi Authority of Accredited Valuers (Taqeem).

31 December 2019

	Cost	Valuer 1	Valuer 2
Drnef Ajyad	**127,305,000**	**130,596,428**	**124,629,835**
Drnef Kuddai	**58,995,000**	**62,747,875**	**63,825,000**
Tihama	**45,450,000**	**51,250,000**	**40,603,515**
Souq Sharq	**681,650,000**	**679,000,000**	**676,630,972**
The Pad	**66,227,218**	**55,139,400**	**55,299,713**
	979,627,218	**978,733,703**	**960,989,035**

31 December 2018

	Cost	Valuer 1	Valuer 2
Drnef Ajyad	127,305,000	128,700,000	124,629,835
Drnef Kuddai	58,995,000	63,000,000	63,811,000
Tihama	45,450,000	51,000,000	40,603,515
Souq Sharq	681,650,000	673,000,000	676,630,972
The PAD	66,227,218	59,556,679	57,110,123
	979,627,218	975,256,679	962,785,445

*The PAD property is situated in Dubai and the above stated fair values are determined by the valuers ValuStrat Management Consultancies and City Properties respectively. Both of these valuers are members of Royal Institution of Chartered Surveyors (RICS).

The fair value figures shown above are for disclosure purpose only and are also used to determine impairment, if any. The impairment for this period was in The PAD property only amounting to SR 3,113,844 (2018: SR 7,893,817) as stated above.

6. INTANGIBLE ASSETS - RIGHT OF BENEFIT

Leasehold rights of properties

31 December 2019

	Cost	Accumulated amortization	Net book value
Plaza 1	**66,660,000**	**(10,686,446)**	**55,973,554**
Plaza2	**82,820,000**	**(5,914,325)**	**76,905,675**
Dhiyapha	**93,930,000**	**(7,111,776)**	**86,818,224**
	243,410,000	**(23,712,547)**	**219,697,453**

31 December 2018

	Cost	Accumulated amortization	Net book value
Plaza 1	66,660,000	(2,137,289)	64,522,711
Plaza2	82,820,000	(1,182,865)	81,637,135
Dhiyapha	93,930,000	(1,422,355)	92,507,645
	243,410,000	(4,742,509)	238,667,491

(Saudi Riyals)

INTANGIBLE ASSETS - RIGHT OF BENEFIT (continued)

Right of benefits amortized over the remaining life of the right, the end dates for the right of benefits as follows:

Plaza 1: 17 July, 2026.

Plaza 2: 29 March 2036.

Dhiyapha: 1 April, 2035.

Fair value of intangible assets
The fair value of intangible assets as a business opportunity as determined by two independent valuers Amaken Valuation Company (Valuer 1) and Taqdeer Company for Real Estate (Valuer 2) as at the reporting date are given below. Both of these valuers are members of the Saudi Authority of Accredited Valuers (Taqeem).

2019

	Cost	Valuer 1	Valuer 2
Plaza 1	**66,660,000**	**67,500,000**	**65,061,315**
Plaza2	**82,820,000**	**82,237,740**	**84,273,710**
Dhiyapha	**93,930,000**	**92,500,000**	**95,250,603**
	243,410,000	**242,237,740**	**244,585,628**

2018

	Cost	Valuer 1	Valuer 2
Plaza 1	66,660,000	67,500,000	65,061,315
Plaza2	82,820,000	83,500,000	84,273,710
Dhiyapha	93,930,000	95,320,000	95,250,603
	243,410,000	246,320,000	244,585,628

7. RIGHT-OF-USE ASSET

Cost	31 December 2019
Balance as at 1 January 2019 (refer note 4)	**-**
Additions	**128,491,729**
Balance as at 31 December 2019	**128,491,729**
Accumulated Depreciation:	
Balance as at 1 January 2019	**-**
Charge for the year	**(10,781,860)**
Balance as at 31 December 2019	**(10,781,860)**
Net book value as at 31 December 2018	**-**
Net book value as at 31 December 2019	**117,709,869**

(Saudi Riyals)

8. ACCOUNTS RECEIVABLE

Account receivable comprise rent receivables and acquisition gain receivables as follows:

	31 December 2019	**31 December 2018**
Rent receivables	**45,166,539**	18,078,554
Acquisition gain receivables	**5,908,381**	20,637,990
Expected credit losses	**(3,163,408)**	-
	47,911,512	38,716,544

The Fund measures the expected credit loss allowance for trade receivables at an amount equal to lifetime expected credit losses (ECL). The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

	Accounts receivable			
31 December 2019	**Months past due**			
	0-6 Months	**6–12 Months**	**More than 12 months**	**Total**
Expected credit loss rate	**0%**	**0%**	**10.35%**	
Accrued management and other fees gross	**6,156,420**	**14,379,007**	**30,539,493**	**51,074,920**
Expected credit loss	**-**	**-**	**(3,163,408)**	**(3,163,408)**
Carrying amount	**6,156,420**	**14,379,007**	**27,376,085**	**47,911,512**

	Accounts receivable			
31 December 2018	**Months past due**			
	0-6 Months	**6–12 Months**	**More than 12 months**	**Total**
Expected credit loss rate	0%	0%	0%	
Accrued management and other fees gross	38,716,544	-	-	38,716,544
Expected credit loss	-	-	-	-
Carrying amount	38,716,544	-	-	38,716,544

9. CASH AND CASH EQUIVALENTS

	31 December 2019	**31 December 2018**
Cash held with custodian	**92,479**	3,615,369
Cash held by SPV	**2,196,005**	1,128,849
	2,288,484	4,744,218

(Saudi Riyals)

10. LONG TERM LOANS

The SPV of the fund AMAR Real Estate Development Company has obtained an Islamic financing facility with Al-Riyadh Bank amounting to SR 400,000,000 for the purpose of financing the real estate investments of the Fund. The loan carries a profit rate at SAIBOR plus 2.15%. The effective profit rate during the period was 4.77% to 4.89%. The loan is repayable after 7 years. The loan arrangement fee in 2018 was SR 3,280,000 on two tranches and it was expensed during 2018 as a period cost. The outstanding drawdown as at 31 December 2019 was SR 302.32 million (2018: SR 274.93 million), The financial charges payable on this loan as at 31 December 2019 were SR 2.8 million (2018: SR 4.2 million). The loan is secured against investment properties of the Fund for a maximum exposure of double the amount of loan.

11. ACCOUNTS PAYABLE

	31 December 2019	31 December 2018
JESER Real Estate Development Company	**70,882,879**	70,882,879
Higher Education Fund (unit holder of Souq Sharq Fund)	**30,200,000**	60,200,000
Nasser Al-Dosseri (unit holder of Al-Qannas Fund)	**16,500,000**	16,500,000
Al-Rukn Al-Mateen (unit holder of Al-Qannas Fund)	**10,000,000**	10,000,000
Dividend payable to Al-Rukn Al-Mateen (unit holder of Al-Qannas Fund)	**1,100,000**	1,100,000
	128,682,879	158,682,879

12. LEASE LIABILITIES

	31 December 2019
Balance at 1 January 2019	**128,491,729**
Additions	-
Finance cost	**3,061,966**
Payment	**(10,300,000)**
Balance at 31 December 2019	**121,253,695**

13. CONTRACT LIABLITIES

	31 December 2019	31 December 2018
Contract liabilities in the beginning of the period	**46,685,551**	54,342,591
Adjusted during the period	**(19,025,533)**	(5,455,640)
Accrued before operation (non-operating income)	**-**	(2,201,400)
Contract liability at the end of the period	**27,660,018**	46,685,551

Contract liabilities represent advances received from customers.

(Saudi Riyals)

14. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 December 2019	31 December 2018
Operational expenses payable	**1,603,747**	632,528
Referral fee	-	1,656,919
Transaction cost payable	**448,240**	448,240
Legal fees	**210,000**	240,781
Registration fees	-	145,026
Valuation expenses	**108,203**	122,129
Custody fee	**250,290**	50,096
Audit fee	**84,000**	42,000
Management fee payable	**360,810**	-
Shariah fee	**19,688**	6,563
	3,084,978	3,344,282

15. OPERATING EXPENSES

	For the year ended 2019	For the period from 1 October to 31 December 2018
Operating expenses for Plaza 1	**3,499,222**	753,417
Operating expenses for Souq Sharq	**3,533,123**	717,699
Rental expense for land of Plaza 1	-	682,585
Legal fees	**210,000**	240,781
Listing and registration fee	**627,150**	228,513
Management fee	**360,810**	-
Valuation expense	**230,450**	122,129
Custody fees	**206,192**	62,696
Other expense	**161,135**	-
Audit fees	**84,000**	42,000
Shariah fee	**13,125**	6,563
	8,925,207	2,856,383

16. CONTINGENCIES AND COMMITMENTS

In prior years, Al-Rukn Al-Mateen Trading Company filed a case against the Fund Manager seeking certain damages and charges associated with the cancellation of their contract for Project 1 (disputed liability). This is pending a court decision. As per external legal advice, the ultimate outcome of this case will be in favor of the Fund.

17. MANAGEMENT FEE AND OTHER CHARGES

The Fund Manager charges the following fee as per the terms and conditions of the Fund:

Subscription fee
The Fund Manager charges each investor a subscription fee of a percentage not exceeding 2% of the subscribed amount to cover administration costs and is netted off against proceeds from issuance of units.

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MANAGEMENT FEE AND OTHER CHARGES (continued)

Management fee
Management fee at the rate of 0.35% per annum of the net assets value of the Fund. The Fund Manager did not charge management fee for the first year of trading.

Transaction fee
The Fund Manager charges the fund a transactions fee equal to 1% of net purchase or selling price for the investment properties.

Loan arrangement fee
The Fund Manager charges the fund a loan arrangement fee equal to 1% of withdraw amounts of the loan.

18. OTHER INCOME

	For the year ended 2019	For the period from 1 October to 31 December 2018
Acquisition gain from MEFIC Funds	-	20,638,130
Adjustment of unearned rental income	-	2,201,401
Amount recovered from previously written off debts	**2,021,856**	**-**
Write-back of liabilities	**122,851**	**-**
	2,144,707	22,839,530

19. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

In the ordinary course of its activities, the Fund transacts business with its related parties. Related parties of the Fund include the Unit holders, the Fund Manager and other funds managed by the Fund manager. Related party transactions are in accordance with the terms and conditions of the Fund. All transactions with related parties are carried out based on mutually agreed prices under formal agreement.
The transactions and balances with related parties are as follows:

Related Party	Nature of transaction	Notes	For the year ended 2019	1 October 2018 to 31 December 2018
Middle East Financial Investment Company (the "Fund Manager")	Transaction fee	A	**-**	11,946,886
	Loan arrangement fee	B	**-**	3,280,000
Al Qannas Fund (Fund managed by the fund manager)	Acquiring Plaza 1- Right of benefit	D	**-**	66,000,000
	Acquiring Dhiyapha- Right of benefit	D	**-**	93,000,000
	Acquiring Plaza 2- Right of benefit	D	**-**	82,000,000
Al Qannas 2 Fund (Fund managed by the fund manager)	Acquiring Tihama- Investment property	D	**-**	45,000,000
Souq Sharq Fund (Fund managed by the fund manager)	Acquiring Souq Sharq - Right of benefit	C,D	**-**	265,000,000
Higher Education Fund (Unit holder of Souq Sharq Fund)	Principal repayment		**30,000,000**	**-**
Middle East Financial Investment Company Fund 2 (Fund managed by the fund manager)	Purchase of units	E	**4,186,387**	**-**

(Saudi Riyals)

TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

A: The Fund Manager charges the Fund a transactions fee equal to 1% of net purchase or selling price for the investment properties.

B: The Fund Manager charges the Fund a loan arrangement fee equal to 1% of withdraw amounts of the loan.

C: Acquiring Souq Sharq right of benefit from Souq Sharq Fund cost SR 265,000,000 and acquiring the land cost SR 400,000,000, Accordingly, The Fund owns Souq Sharq as a freehold investment property.

D: In Acquiring those investments the fund pays cash and issued in-kind units to some of the unit holders. There was acquisition gain from acquiring Al Qannas, Alqannas 2, and Souq Sharq funds by the amounts SR 10,157,742, SR 3,060,178 SR 10,000,000 respectively.

E: Middle East Financial Investment Company Fund 2 (Fund managed by the Fund Manager) has purchased MEFIC REIT units from Saudi Stock Market. As at 31 December 2019, this fund owns 471,440 units in MEFIC REIT Fund, which is equal to 0.64% of total REIT units. The market value per unit of MEFIC REIT Fund as at the reporting date was SR 7.86 per unit.

Related party balances as the reporting date were as follows:

Related Party	Balance	31 December 2019	31 December 2018
Middle East Financial Investment Company (the "Fund Manager")	Transaction fee payable	**11,946,885**	11,946,885
JESER Real Estate development Company	Payable for Souq Sharq Property	**70,882,879**	70,882,879
Higher Education Fund (unit holder of Souq Sharq Fund)	Unpaid principal	**30,200,000**	60,200,000
Nasser Al-Dosseri (unit holder of Al-Qannas Fund)	Unpaid principal	**16,500,000**	16,500,000
Al-Rukn Al-Mateen (unit holder of Al-Qannas Fund)	Unpaid principal	**10,000,000**	10,000,000
Dividend payable to Al-Rukn Al-Mateen (unit holder of Al-Qannas Fund)	Unpaid principal	**1,100,000**	1,100,000
Middle East Financial Investment Company Fund 2 (Fund managed by the fund manager)	Units related to a fund managed by the fund manager	**4,186,387**	-

20. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks namely; credit risk, liquidity risk and market risk (including commission rate risk, currency risk and price risk). The Fund's overall risk management policies focuses on the predictability of financial market and seeks to minimize potential adverse effect on the Fund's financial performance. Overall, risks arising from the Fund`s financial assets and liabilities are limited. The Fund Manager consistently manages its exposure to financial risk in the manner describe in notes below.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and cause other party to incur a financial loss. The Fund is exposed to credit risk on accounts receivable and bank balances. Bank balance is maintained with reputed local bank and custodian in the Kingdom of Saudi Arabia. The receivables are from customers having satisfactory credit worthiness. The Fund seeks to limit its credit risk with respect to its counterparties by setting credit limits for individual counterparties and by monitoring outstanding receivables.

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FINANCIAL RISK MANAGEMENT (continued)

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund’s total credit exposure. The Fund’s total credit risk with respect of financial asset is dispersed customers with respect to receivables and with local reputed bank in Kingdom of Saudi Arabia.

Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in generating funds to meet commitments associated with financial liabilities. The Fund Manager monitors the liquidity requirements on a regular basis and takes necessary actions to ensure that sufficient funds are available to meet any liabilities as they fall due under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. The following are the contractual maturities of financial liabilities as at the reporting date:

	Carrying amount	**On demand or less than six months**	**Six to Twelve months**	**Over one year**
Financial liabilities at amortized cost				
Long term loans	**302,322,486**	-	-	**302,322,486**
Accounts payable	**128,682,879**	**128,682,879**	-	-
Fund Manager transaction fee	**11,946,885**	**11,946,885**	-	-
Finance charges payable	**2,828,901**	**2,828,901**	-	-
As at 31 December 2019	**445,781,151**	**143,458,665**	-	**302,322,486**

	Carrying amount	**On demand or less than six months**	**Six to Twelve months**	**Over one year**
Financial liabilities at amortized cost				
Long term loans	274,938,849	-	-	274,938,849
Accounts payable	158,682,879	158,682,879	-	-
Fund Manager transaction fee	11,946,885	11,946,885	-	-
Finance charges payable	4,229,675	4,229,675	-	-
As at 31 December 2018	449,798,288	174,859,439	-	274,938,849

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices.

Market risk comprises three types of risk: commission rate risk, currency risk and price risk.

Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect the value of or future cash flow of financial instruments. The Fund has no commission bearing financial assets however they have variable commission bearing financial liabilities as disclosed in relevant notes to the financial statements. The effect of change in commission rate on the financial liabilities is not assessed to be material.

(Saudi Riyals)

FINANCIAL RISK MANAGEMENT (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The fund's functional and presentation currency is Saudi Riyal, with some transactions with UAE Dirham which has a stable exchange rate to Saudi Riyal. The Fund is not consequently exposed to any currency risk.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Fund`s financial assets and liabilities are not affected by changes in market prices.

Categories of financial assets and financial liabilities

	Notes	**31 December 2019**	**31 December 2018**
Financial assets at amortized cost			
Accounts receivable	8	**47,911,512**	38,716,544
Cash and cash equivalent	9	**2,288,484**	4,744,218
		50,199,996	43,460,762
Financial liabilities at amortized cost:			
Long term loan	10	**302,322,486**	274,938,849
Accounts payable	11	**128,682,879**	158,682,879
Lease liabilities	12	**121,253,695**	**-**
Fund Manager transaction fee	19	**11,946,885**	11,946,885
Other liabilities		**3,084,978**	3,344,282
Finance charges payable	10	**2,429,077**	4,229,675
		569,720,000	453,142,570

21. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 December 2019	**Within 12 months SR**	**After 12 months SR**	**Total SR**
ASSETS			
Investment properties	-	**962,611,573**	**962,611,573**
Intangible assets - right of benefit	-	**219,697,453**	**219,697,453**
Right of use asset	-	**117,709,869**	**117,709,869**
Accounts receivable	**47,911,512**	-	**47,911,512**
Prepaid expenses and other receivables	**1,814,280**	-	**1,814,280**
Cash and cash equivalent	**2,288,484**	-	**2,288,484**
TOTAL ASSETS	**52,014,276**	**1,300,018,895**	**1,352,033,171**
LIABILITIES			
Long term loans	-	**302,322,486**	**302,322,486**
Accounts payable	**128,682,879**	-	**128,682,879**
Lease liabilities	**121,253,695**	-	**121,253,695**
Contract liability	**27,660,018**	-	**27,660,018**
Fund Manager transaction fee	**11,946,885**	-	**11,946,885**
Accrued expenses and other liabilities	**3,084,978**	-	**3,084,978**
Finance charges payable	**2,828,901**	-	**2,828,901**
TOTAL LIABILITIES	**295,457,356**	**302,322,486**	**597,779,842**

(Saudi Riyals)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

As at 31 December 2018	Within 12 months SR	After 12 months SR	Total SR
ASSETS			
Investment properties	-	970,531,804	970,531,804
Intangible assets - right of benefit	-	238,667,491	238,667,491
Accounts receivable	38,716,544	-	38,716,544
Prepaid expenses and other receivables	1,009,105	-	1,009,105
Cash and cash equivalent	4,744,218	-	4,744,218
TOTAL ASSETS	44,469,867	1,209,199,295	1,253,669,162
LIABILITIES			
Long term loans	-	274,938,849	274,938,849
Accounts payable	-	158,682,879	158,682,879
Contract liability	46,685,551	-	46,685,551
Fund Manager transaction fee	11,946,885	-	11,946,885
Accrued expenses and other liabilities	3,344,282	-	3,344,282
Finance charges payable	4,229,675	-	4,229,675
TOTAL LIABILITIES	66,206,393	433,621,728	499,828,121

22. 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 at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Underlying the definition of fair value is the presumption that the Fund is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable;

FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial assets and liabilities

Financial assets consist of cash and cash equivalent and accounts receivable. Financial liabilities consist of accounts payable, other payables, Lease liabilities and long term loans. The fair values of financial assets and financial liabilities are not materially different from their carrying amounts.

Non-Financial assets

The fair value of investment properties and intangibles as disclosed in their relevant notes are for are included in level 2 as required by IFRSs.

Transfers between fair value hierarchies

Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period during which the changes have occurred. However, there were no transfers between fair value hierarchies during the current or any of the prior periods reported.

23. SUBSEQUENT EVENTS

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across the globe, causing disruptions to businesses, economic activity and decline in stock market indices in those jurisdictions. The Fund considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Fund.

24. LAST VALUATION DATE

The last valuation date of the year was 31 December 2019.

25. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Fund’s Board on 07 Sha’ban 1441 H corresponding to 31 March 2019G.