MEFIC REAL ESTATE INCOME FUND
Managed by
MIDDLE EAST FINANCIAL INVESTMENT COMPANY
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2018
together with the
<u>INDEPENDENT AUDITOR'S REPORT</u>

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INDEPENDENT AUDITOR'S REPORT

To the Unit holders of
MEFIC Real Estate Income Fund
Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the financial statements **MEFIC Real Estate Income Fund** (the "Fund") managed by Middle East Financial Investment Company (the "Fund Manager") which comprise the statement of financial position as at 31 December 2018 and the statements of comprehensive income, changes in net assets attributable to unit holders and cash flows for the year then ended, and notes to the financial statements, including a summary of 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 2018, 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 versions 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 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 its requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to note 8 of the financial statements which describes a default by the counterparty to the real estate property transaction and a contingency arising from a legal case challenging the terms of that transaction. Management believes that the case will be found in favour of the Fund, and that the assets of the fund will consequently be recovered in full.

Our opinion is not modified in respect of this matter.

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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 2018. 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:

Carrying value of assets	
Key audit matter	***How the matter was addressed in our audit***
The counterparty to the real estate property transaction has defaulted in settlement of its contractual obligations. The counterparty is disputing, among other matters, the equitability of the commission income being charged. The matter is proceeding through court and during 2018 was transferred from a civil court to a common court. Management is continuing to recognize and accrue income on the transaction as they believe there is no expected credit loss, as the principal and accrued commission pertaining to the transaction is adequately covered by collateral.. As explained in note 3.2, the Fund will end on 18 March 2019 and management considers that the break up basis of accounting and the going concern basis will produce the same results. For this assumption to hold, the Fund will need to be able to liquidate collateral to provide sufficient cash to redeem units on 18 March 2019 if the default continues to this date. We regard this as a key audit matter as there is a risk of impairment of Fund assets and, given the lack of liquidity in the Fund due to the default, there is a risk concerning the validity of the management assumption in note 3.2 used in the preparation of accompanying financial statements.	We considered management's assessment of the adequacy of security held to secure the value of assets. We critically assessed the valuation received from the qualified property valuers, and challenged the valuation basis with respect to the circumstances of the Fund. We considered the categorization of the property transaction as a financing arrangement under International Financial Reporting Standard 9 ("Financial Instruments") together with management's assertion that there is no allowance for lifetime expected credit losses on the financial asset principal amount or accrued commission. We obtained opinion from the Fund's legal counsel on the status of asset security and the likely outcome of the court case. Our procedures also included an assessment of the fund's ability to liquidate collateral and ultimately to pay its liabilities to validate the going concern assumption.
Refer to note 3.2 for the basis of accounting assumption, note (4f) for accounting policy and note (6 and 8) for related disclosures.	

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Key audit matters (Continued)

IFRS conversion	
Key audit matter	***How the matter was addressed in our audit***
For all periods up to and including the year ended 31 December 2017, the Fund prepared its financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia as issued by SOCPA ("Previous GAAP"). The Fund adopted IFRS as from 1 January 2018. These financial statements for the year ended 31 December 2018 are the first annual financial statements prepared in accordance with IFRS as endorsed in Kingdom of Saudi Arabia and other standards and pronouncement issued by SOCPA. The Fund has prepared these annual financial statements that comply with IFRS as endorsed in KSA as at 31 December 2018, as well as for presenting the relevant comparative period data for the period ended 31 December 2017. In compliance with requirements of IFRS 1 endorsed in KSA, the Fund`s opening statement of financial position was prepared as at 1 January 2017 (“transition date”) after incorporating required adjustments to reflect the transition to IFRS as endorsed in KSA from the Previous GAAP. We considered this a key audit matter as the basis of accounting is fundamental to the presentation and preparation of the financial statements.	Our procedures included the following: - Considering the process to identify all necessary adjustments to opening balances and comparatives; - Critically examining management’s approach to estimates, including estimated related to impairment of financial assets; - Ensuring consistency in selection and application of accounting policies by management and their appropriateness and adequacy and sufficiency of required disclosures;
Refer to note (3.1) for accounting policy and note (12) for related disclosures.	

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 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 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 IFRSs endorsed in the Kingdom of Saudi Arabia, other standards and versions endorsed by SOCPA and requirements of the Real Estate Investment Fund Regulations as published by Capital Market Authority in Kingdom of Saudi Arabia , 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 Group 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 statements

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.

For Dr. Mohamed Al-Amri & Co.

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Riyadh
Certified Public Accountants
Dr. Mohamed Al-Amri & Co.

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

Riyadh, on 21 February 2019G
Corresponding to: 16 Jumada II' 1440H

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(Saudi Riyals)

	Notes	**31 December 2018**	31 December 2017	1 January 2017
ASSETS				
Cash at bank- current account		**88,075**	131,825	252,200
Receivable under deferred sale agreement	6	**95,000,000**	95,000,000	95,000,000
Accrued commission income	6 & 7	**28,526,836**	18,731,638	8,936,441
Total assets		**123,614,911**	113,863,463	104,188,641
LIABILITIES				
Due to related party	6	**6,000,000**	6,000,000	-
Management fee payable	6	**3,926,906**	3,451,953	2,041,109
Dividend payable	6	**1,610,000**	1,610,000	-
Other expenses payable		**296,123**	152,500	158,750
Total liabilities		**11,833,029**	11,214,453	2,199,859
Net assets attributable to the Unit holders		**111,781,882**	102,649,010	101,988,782
Units in issue - numbers		**9,630,000**	9,630,000	9,630,000
Net assets value - per unit		**11.61**	10.66	10.59
Contingencies and commitments	8			

The accompanying notes from 1 to 13 form an integral part of these financial statements.

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018
(Saudi Riyals)

	Notes	**31 December 2018**	31 December 2017
INCOME			
Commission income	6	**9,795,198**	9,795,197
EXPENSES			
Management fee	5 & 6	**(474,954)**	(2,160,844)
Legal fee		**-**	(150,000)
Other expenses	5	**(187,372)**	(83,125)
Total expenses		**(662,326)**	(2,393,969)
Operating (loss) / profit for the year		**9,132,872**	7,401,228
Other comprehensive income for the year		**-**	-
Total comprehensive (loss) / income for the year		**9,132,872**	7,401,228

The accompanying notes from 1 to 13 form an integral part of these financial statements.

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLETO UNITHOLDERS
For the year ended 31 December 2018
(Saudi Riyals)

	31 December 2018	31 December 2017
Net assets value at 1 January	**102,649,010**	101,988,782
Net (loss) / income for the year	**9,132,872**	7,401,228
Dividends declared during the year	**-**	(6,741,000)
Net assets value at 31 December	**111,781,882**	102,649,010

TRANSACTIONS WITH UNITHOLDERS

There were no transactions with unit holders during the current and prior year.

	31 December 2018	31 December 2017
	Units	
Units at 1 January / 31 December	**9,630,000**	9,630,000

The accompanying notes from 1 to 13 form an integral part of these financial statements.

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
STATEMENT OF CASH FLOWS
For the year ended 31 December 2018
(Saudi Riyals)

	31 December 2018	31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**9,132,872**	7,401,228
Changes in operating assets and liabilities:		
Accrued commission income	**(9,795,198)**	(9,795,197)
Management fee payable	**474,953**	1,410,844
Other expenses payable	**143,623**	(6,250)
Net cash used in operating activities	**(43,750)**	(989,375)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net movement in related party balances	**-**	6,000,000
Dividends paid	**-**	(5,131,000)
Net cash from financing activities	**-**	869,000
Net change in cash and cash equivalent	**(43,750)**	(120,375)
Cash and cash equivalent at 1 January	**131,825**	252,200
Cash and cash equivalent at 31 December	**88,075**	131,825

The accompanying notes from 1 to 13 form an integral part of these financial statements.

1. THE FUND AND ITS ACTIVITIES

MEFIC Real Estate Income Fund (the "Fund") is a closed-ended real estate fund established and managed through an agreement between Middle East Financial Investment Company (the "Fund Manager" or "MEFIC") and the Fund`s Investors (the "Unit holders").

The objective of the Fund is to purchase residential and commercial real estate in the Kingdom of Saudi Arabia on a condition that it is rented in advance with a known annual return, or purchase the right to benefit from it and achieve stable returns for investors of around 8% annually, and distributing a significant portion of it on a yearly basis over the term of the Fund.

The Fund commenced its operations on 18 March 2012 for a term of 4 years starting from the subscription date on 18 February 2012. The approval from Capital Market Authority ("CMA") for the establishment of the Fund was granted in its letter number 4514/5 dated Ramadan 24, 1432 H (corresponding to 24 August 2011). The contractual tenure of the fund was extended for a third consecutive year up to 18 March 2019. The revised terms and conditions of the Fund were announced on 24 April 2018.

In dealing with the Unit holders, the Fund Manager considers the Fund as an independent accounting unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund. Furthermore, the Unit holders are beneficial owners of the assets of the Fund and any income distribution is made in proportion to their unit holdings in the fund.

2. REGULATORY AUTHORITY

The Fund is governed by Real Estate Investment Funds Regulations issued by CMA on 19 Jumada II 1427 H (corresponding to 15 July 2006 G) detailing requirements for real estate 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 (IFRS) 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.

Transition to International Financial Reporting Standards (IFRSs)

For all periods up to and including the year ended 31 December 2017, the Fund prepared its financial statements in accordance with accounting principles generally accepted in the Kingdom of Saudi Arabia "Saudi GAAP". These financial statements for the period ended 31 December 2018 are prepared in accordance with IFRS, therefore, these include some additional disclosures required by IFRS 1 "First time Adoption of International Financial Reporting Standards" to enable the users to understand how the transition to IFRS has affected previously reported amounts. An explanation of transition to IFRSs is provided in note 12 to these financial statements.

BASIS OF PREPARATION (Continued)

3.2 Basis of measurement and going concern assumption

These financial statements have been prepared under the historical cost convention, using the accrual basis of accounting and the going concern concept. The contractual term of the Fund will end on 18 March 2019 (see note 1 above) however, in the opinion of the management, the break up basis and the going concern basis will produce the same results for these financial statements. Accordingly, these financial statements have been prepared on a going concern basis.

3.3 Functional and presentation currency

These financial statements have been presented in Saudi Riyals (SR), which is the functional 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 banks 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.

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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 entity'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 profit or loss or other 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 profit or loss 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 profit or loss 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 other comprehensive income. Changes in the fair value of financial assets at fair value through profit or loss shall be recognized in other gain/ (losses) in the profit or loss and other 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, trade 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 profit or loss even for receivables that are newly originated or acquired.

Impairment of financial assets is measured as either 12 month expected credit losses or life time 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 IFRS 9 for measuring expected credit losses for receivables 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.

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 as financial liabilities at fair value through profit or loss,

b) Those to be measured at amortized cost

SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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, trade payables etc.

The Fund's financial liabilities include trade payables and loans and financings. 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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in other 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**

Commission income on financial assets at amortized cost is calculated using the effective commission rate method and is recognized in the statement of comprehensive income. Commission income is calculated by applying the effective commission rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset i.e. after deduction of the loss allowance.

***h)* Critical accounting estimates and judgment**

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised. Significant estimates and judgments used in impairment of financial assets are explained in relevant policy of financial instruments.

(Saudi Riyals)

5. MANAGEMENT FEE AND OTHER CHARGES

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

Subscription fee
The Fund Manager charges each investor with a subscription fee of a percentage not exceeding 1.25% of the subscribed amount.

Management fee
The Fund Manager charges the Fund, a management fee at the rate of 2% (31 December 2017: 2%) per annum payable quarterly of the net assets value of the Fund at each valuation day.

Other expenses
The Fund Manager also recovers certain expenses incurred on behalf of the Fund within limits mentioned in the terms and conditions of the Fund.

6. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties of the Fund include Unit holders, the Owner of the compound, the Fund Manager and its related entities. 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 terms under formal agreement.

		For the year ended 31 December	
Name of related party	**Nature of transactions**	**2018**	2017
Sons of Abdullah Mohammed Al Blihed Company (the Unit holder)	Commission income	**9,795,198**	9,795,197
Middle East Financial Investment Company (the Fund Manager)	Management fee	**474,953**	2,160,844
	Financing received	**-**	6,000,000
Board of Directors	Board fee	**60,000**	52,500

The transactions resulted in following balances with related parties at reporting date:

Name of related party	**Balance**	**31 December 2018**	31 December 2017	1 January 2017
Sons of Abdullah Mohammed Al Blihed Company (the Unit holder)	Receivable under deferred sale agreement	**95,000,000**	95,000,000	95,000,000
	Accrued commission income	**28,526,836**	18,731,638	8,936,441
	Dividend payable	**1,610,000**	1,610,000	-
Middle East Financial Investment Company (the Fund Manager)	Management fee payable	**3,926,906**	3,451,953	2,041,109
	Financing payable	**6,000,000**	6,000,000	-
Board of Directors	Board fee payable	**172,500**	112,500	60,000

(Saudi Riyals)

TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Receivable under deferred sale agreement
On 18 March 2012, the Fund entered into the following three agreements with Sons of Abdullah Mohammed Al Blihed Company (the Unit holder) of a residential compound in Riyadh (the "Compound"):

- Agreement to purchase the Compound at a price of SR 95,000,000. The Fund obtained the legal title of the Compound initially in the name of the Managing Director of the Fund Manager, which was transferred to Jeser Real Estate Development Company ("the Custodian"), a subsidiary of the Fund Manager, in its capacity of a custodian of the title on behalf of the Fund. The Custodian, through a letter, has assigned the legal title to the Fund Manager;
- Agreement to sell the Compound back to the Sons of Abdullah Mohammed Al Blihed Company (the Unit holder) after completion of 5 years at the price of SR 95,000,000. This agreement was extended in 2016 for an additional two years; and
- Agreement to lease back the Compound to the Owner at an annual (Hijri year) commission income of SR 9,500,000.

Based on above terms, the assets purchased under the agreement to resell at a future specified date are not recognized in the statement of financial position. Considering the substance of the transaction, the Fund is not exposed to substantial risks and rewards of the underlying property hence the arrangement does not qualify for classification as either a finance lease or an operating lease of the property. The arrangement is treated as a financing arrangement with deferred settlement date for the principal amount.

Return on such arrangement is recorded as commission income in the Fund's statement of comprehensive income on accrual basis.

The fair value of the Compound determined by two approved appraisers namely Olaat Real estate (OPM) and White Cubes Real Estate as of 31 December 2018 was SR 132,171,866 and SR 135,000,000 respectively (31 December 2017: SR 123,225,674 and SR 121,955,555 respectively), after taking into account all the circumstances relating to the property at the date of valuation. Both of the appraisers are members of the Saudi Authority of Accredited Valuers (Taqeem).

Related party financing
The Fund has outstanding financing of SR 6,000,000 (31 December 2017: SR 6,000,000) from Middle East Financial Investment Company (the Fund Manager). This financing carries no commission and has no definite terms of repayment.

Units held by related parties
The units in issue as at the reporting date include units held by related parties as follows:

Related party	**31 December 2018**	Percentage Holdings
Higher Education Fund	36.34%	36.34%
Sons of Abdullah Mohammed Al Blihed Company	23.88%	23.88%
Abdulaziz Abdulrahman Abdullah Al Mudimigh	18.69%	18.69%
GCCSG	8.31%	8.31%
Fahad Nasser Fhaid Al Dosari	7.27%	7.27%
Jeser Real Estate Development Company	0.62%	0.62%
Ibrahim Abdullah Rashid Al Hedaithy	0.16%	0.16%

(Saudi Riyals)

TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

a) No. of units owned by unit holders and their respective holdings in Fund remain unchanged during the current and prior year reported.
b) As per Real Estate Investment Funds Regulations all unit holders having a unit holding of more than 5% and their affiliates are treated as related parties.

7. ACCRUED COMMISSION INCOME

	31 December 2018	31 December 2017	1 January 2017
Accrued commission income	**28,526,836**	18,731,638	8,936,441

8. CONTINGENCIES AND COMITTMENTS

During the prior year, Sons of Abdullah Mohammed Al Blihed Company (the Unit holder) defaulted in payment of commission income and filed a case against the Fund Manager leveling certain charges related to commission income. The case is proceeding before a court and pending the decision of the court the Fund Manager, based on the advice of its legal advisor, believes that the decision of the case will be in favor of the Fund and consequently no additional material adjustments are required in these financial statements.

There were no other commitments as the reporting date.

9. DIVIDEND

Terms & conditions (T&Cs) of the Fund contains an objective to pay 8% in respect of dividend every year. The Fund Board has not declared any dividend for the current year (2017: SR 6,741,000).

10. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks namely; credit risk and liquidity risk and market risk (including commission rate risk, currency risk and price risk). The Fund's overall risk management programme focuses on the predictability of financial market and seeks to minimise potential adverse effect on the Fund's financial performance. Overall, risks arising from the Fund`s financial assets and liabilities are limited. The Fund consistently manages its exposure to financial risk without any material change from previous period 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 its bank balance, accrued commission income and receivable under deferred sale agreement, however the bank balance is maintained with reputed local bank in the Kingdom of Saudi Arabia, accrued commission income and receivable under deferred sale agreement is secured against unit holding of the owner of compound in the fund itself and against the title of underlying property, whose fair value exceeds the amount receivable and therefore the Fund Manager believes that the Fund is not exposed to any significant residual credit risk.

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 instruments is mostly concentrated in receivable from unit holder i.e. owner of compound.

(Saudi Riyals)

FINANCIAL RISK MANAGEMENT (Continued)

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	Six months or less	Six to Twelve months	Over one year
Financial liabilities at amortized cost				
Due to related party	**6,000,000**	6,000,000	-	-
Management fee payable	**3,926,906**	3,926,906	-	-
Dividend payable	**1,610,000**	1,610,000	-	-
Other expenses payable, excluding VAT payable	**272,375**	272,375	-	-
As at 31 December 2018	**11,809,281**	11,809,281	-	-
As at 31 December 2017	11,214,453	11,214,453	-	-
As at 1 January 2017	2,199,859	2,199,859	-	-

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 or future cash flow of financial instruments. The amount of commission on the Fund’s financial asset is fixed as per the deferred sale agreement. Accordingly, the Fund is not exposed to any commission rate risk.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. As the Fund's financial instruments are denominated in its functional currency, the Fund is not subject to currency risks.

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. Since the value of Fund`s financial instruments is not exposed to market prices, Fund is not exposed to price risk.

(Saudi Riyals)

FINANCIAL RISK MANAGEMENT (Continued)

Financial instruments by category
The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities:

	31 December 2018	31 December 2017	1 January 2017
Financial assets	**SR**	SR	SR
Financial assets at amortized cost:			
Cash at bank- current account	**88,075**	131,825	252,200
Receivable under deferred sale agreement	**95,000,000**	95,000,000	95,000,000
Accrued commission income	**28,526,836**	18,731,638	8,936,441
Total financial assets at amortized cost	**123,614,911**	113,863,463	104,188,641
Financial liabilities			
Financial liabilities at amortized cost:			
Due to related party	**6,000,000**	6,000,000	-
Management fee payable	**3,926,906**	3,451,953	2,041,109
Dividend payable	**1,610,000**	1,610,000	-
Other expenses payable, excluding VAT payable	**272,375**	152,500	158,750
Total liabilities at amortized cost	**11,809,281**	11,214,453	2,199,859

11. 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Currently, there are no financial assets at fair value. The Company's financial assets consist of bank balance and receivable under deferred sale agreement and its accrued commission. Its financial liabilities consist of accrued expenses and other liabilities. There was no other material Level 1, 2 or 3 asset or liability during the current and prior year reported.

The carrying values of all financial assets and liabilities reflected in these financial statements approximate their fair values.

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 years reported.

12. FIRST TIME ADOPTION OF IFRSs

Transition to IFRSs has not affected the reported financial position, financial performance and cash flows of the Fund as at 31 December 2017, 1 January 2017 or for the year ended 31 December 2017. Consequently, no transition note reconciling the previous statements reported under Saudi generally accepted accounting principles (GAAP) and the same statements as reported under IFRS is necessary as all of the transitions relates to presentation and disclosure only. However, as the financial statements for all periods up to and including the year ended 31 December 2017 did not contain an explicit and unreserved statement of compliance with IFRSs, the management has applied the guidance given in “IFRS 1 First-time Adoption of International Financial Reporting Standards” in preparing these financial statements and consequently included appropriate disclosures to that effect.

First-time adoption exemptions applied

Upon transition, IFRS 1 permits certain exemptions from full retrospective application of IFRSs. The Fund`s application of mandatory and optional exemptions, are set out below.

Mandatory exemptions adopted by the Fund

Estimates

The estimates at 1 January 2017 and at 31 December, 2017 are consistent with those made for the same dates in accordance with Saudi GAAP. The estimates used by the Fund to present these amounts in accordance with IFRS reflect conditions at 1 January 2017, the date of transition to IFRS and as of 31 December, 2017.

Optional exemptions adopted by the Fund

The Fund has not used any optional exemptions for retrospective application of IFRS.

13. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Fund’s Board on 16 Jumada II’ 1440H corresponding to 21 February 2019G.