

MEFIC REAL ESTATE INCOME FUND
Managed by
MIDDLE EAST FINANCIAL INVESTMENT COMPANY
UNAUDITED CONDENSED INTERIM FINANCIAL
STATEMENTS FOR THE SIX MONTHS PERIOD ENDED
30 JUNE 2019
together with the
INDEPENDENT AUDITOR'S REVIEW REPORT

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REVIEW REPORT**
For the six months' period ended 30 June 2019

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INDEPENDENT AUDITOR'S REVIEW REPORT

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

Introduction

We have reviewed the accompanying condensed interim statement of financial position of MEFIC Real Estate Income Fund ("the Fund") managed by Middle East Financial Investment Company (MEFIC) as at 30 June 2019 and the related condensed interim statements of comprehensive income, changes in net assets attributable to unit holders and cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes.

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with International Accounting Standard 34 ("IAS 34") - "Interim Financial Reporting" endorsed in the Kingdom of Saudi Arabia.

Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Emphasis of matter

We draw attention to note 8 of the condensed interim 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 review conclusion is not modified in respect of this matter.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements do not present fairly, in all material aspects, the condensed interim financial position of the Fund as at 30 June 2019 and of its financial performance and its cash flows for the six months period then ended in accordance with International Accounting Standard 34 ("IAS 34") - "Interim Financial Reporting" endorsed in the Kingdom of Saudi Arabia.

For Dr. Mohamed Al-Amri & Co.



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



Riyadh, on: 11 Dhul Qa'adah 1440 (H)
Corresponding to: 14 July 2019 (G)

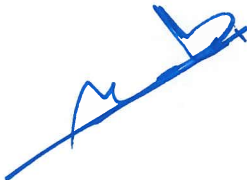
MEFIC REAL ESTATE INCOME FUND
 Managed by Middle East Financial Investment Company
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)
 As at 30 June 2019
 (Saudi Riyals)

	Notes	30 June 2019 Unaudited	31 December 2018 Audited
ASSETS			
Cash at bank- current account		61,825	88,075
Receivable under deferred sale agreement	7	95,000,000	95,000,000
Accrued commission income	7	28,526,836	28,526,836
Total assets		123,588,661	123,614,911
LIABILITIES			
Due to related party	7	6,000,000	6,000,000
Management fee payable	6&7	3,926,906	3,926,906
Dividend payable	7	1,610,000	1,610,000
Other expenses payable		355,248	296,123
Total liabilities		11,892,154	11,833,029
Net assets attributable to the Unit holders		111,696,507	111,781,882
Units in issue - numbers		9,630,000	9,630,000
Net assets value - per unit		11.5988	11.6077
Contingencies and commitments	8		

The accompanying notes from 1 to 11 form an integral part of these condensed interim financial statements.

MEFIC REAL ESTATE INCOME FUND
 Managed by Middle East Financial Investment Company
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
 For the six month period ended 30 June 2019
 (Saudi Riyals)

	Notes	<u>2019</u>	<u>2018</u>
INCOME			
Commission income	7	<u>-</u>	<u>4,857,345</u>
EXPENSES			
Management fee	6&7	-	(474,954)
Other expenses	6	<u>(85,375)</u>	<u>(94,998)</u>
Total expenses		<u>(85,375)</u>	<u>(569,952)</u>
Operating (loss) / profit for the period		<u>(85,375)</u>	<u>4,287,393</u>
Other comprehensive income for the period		<u>-</u>	<u>-</u>
Total comprehensive (loss) / income for the period		<u>(85,375)</u>	<u>4,287,393</u>



The accompanying notes from 1 to 11 form an integral part of these condensed interim financial statements.



MEFIC REAL ESTATE INCOME FUND
 Managed by Middle East Financial Investment Company
**CONDENSED INTERIM STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE
 TO UNIT HOLDERS (UNAUDITED)**
 For the six month period ended 30 June 2019
 (Saudi Riyals)

	2019	2018
Net assets value at 1 January	111,781,882	102,649,010
Net (loss) / income for the period	(85,375)	4,287,393
Dividends declared during the period	-	-
Net assets value as at 30 June	111,696,507	106,936,403

TRANSACTIONS WITH UNIT HOLDERS

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

	2019	2018
	Units	
Units at 1 January / 30 June	9,630,000	9,630,000

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The accompanying notes from 1 to 11 form an integral part of these condensed interim financial statements.



MEFIC REAL ESTATE INCOME FUND
 Managed by Middle East Financial Investment Company
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
 For the six month period ended 30 June 2019
 (Saudi Riyals)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) / income for the period	(85,375)	4,287,393
Changes in operating assets and liabilities:		
Accrued commission income	-	(4,857,345)
Management fee payable	-	474,954
Other expenses payable	59,125	73,998
Net cash used in operating activities	(26,250)	(21,000)
Net decrease in cash and cash equivalent	(26,250)	(21,000)
Cash and cash equivalent at beginning of the period	88,075	131,825
Cash and cash equivalent at the end of the period	61,825	110,825




The accompanying notes from 1 to 11 form an integral part of these condensed interim financial statements.

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
For the six months period ended 30 June 2019
(Saudi Riyals)

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 Investors (the “Unitholders”).

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 fourth consecutive year up to 18 March 2020. The revised terms and conditions of the Fund were announced on 28 March 2019.

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, 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 condensed interim financial statements have been prepared in accordance with International Accounting Standard - 34 “Interim Financial Reporting” as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants (“SOCPA”) and the requirements of the Real Estate Investment Funds Regulations as published by CMA and the Fund’s terms and conditions, so far as they relate to the preparation and presentation of the financial statements.

This condensed interim financial information is unaudited. The disclosures made in this condensed interim financial information have been limited in accordance with the requirements of “International Accounting Standard - 34 “Interim Financial Reporting” . This does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual audited financial statements of the Fund for the year ended 31 December 2018.

The comparative statement of financial position presented in this condensed interim financial information has been extracted from the annual audited financial statements of the Fund for the year ended 31 December 2018, whereas the comparative condensed interim statement of comprehensive income, condensed interim statement of changes in net assets attributable to unit holders, and condensed interim statement of cash flows are extracted from the unaudited condensed interim financial information of the Fund for the six months period ended 30 June 2018.

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
For the six months period ended 30 June 2019
(Saudi Riyals)

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 ended on 18 March 2020 (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.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of audited annual financial statements of the Fund for the year ended 31 December 2018.

The Fund has adopted all the new standards and amendments to existing standards, including any consequential amendments to other standards which are applicable for the financial year beginning on or after 1 January 2019. The adoption of these new and amended standards do not have any material effect on this condensed interim financial information.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. However, actual results may differ from these estimates.

During the preparation of this condensed interim financial information, the significant judgements made by the management in applying the Fund's accounting policies and the key sources of estimation and uncertainty were the same as those that were applied to the audited annual financial statements of the Fund for the year ended 31 December 2018.

6. 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% (30 June 2018: 2%) per annum payable quarterly of the net assets value of the Fund at each valuation day. As per Board resolution dated 1 March 2018, no management fee is charged for the extended period from 18 March 2018.

MEFIC REAL ESTATE INCOME FUND
 Managed by Middle East Financial Investment Company
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
 For the six months period ended 30 June 2019
 (Saudi Riyals)

MANAGEMENT FEE AND OTHER CHARGES (CONTINUED)

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.

7. 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.

Name of related party	Nature of transactions	For the period ended 30 June	
		2019	2018
Sons of Abdullah Mohammed Al Blihed Company (the Unit holder)	Commission income	-	4,857,345
Middle East Financial Investment Company (the Fund Manager)	Management fee	-	474,954
Fund Board	Board fee	30,000	30,000

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

Name of related party	Nature of balance	As at	
		30 June 2019	31 December 2018
Sons of Abdullah Mohammed Al Blihed Company (the Unit holder)	Receivable under deferred sale agreement	95,000,000	95,000,000
	Accrued commission income	28,526,836	28,526,836
	Dividend payable	1,610,000	1,610,000
Middle East Financial Investment Company (the Fund Manager)	Management fee payable	3,926,906	3,926,906
	Financing received	6,000,000	6,000,000
	Board fee	202,500	172,500

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.

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TRANSACTIONS AND BALANCES WITH RELATED PARTIES (CONTINUED)

Based on above terms, the assets purchased under the agreement to resell at a future specified date are not recognized in the condensed interim 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 condensed interim statement of comprehensive income on accrual basis.

The fair value of the Compound determined by two approved appraisers namely Olat Real estate (OPM) and White Cubes Real Estate as of 30 June 2019 was SR 132,171,866 and SR 137,200,000 respectively (31 December 2018: SR 132,171,866 and SR 135,000,000 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 (Taqem).

Related party financing

The Fund has outstanding financing of SR 6,000,000 (31 December 2018: 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	30 June 2019	Percentage Holdings
Higher Education Fund	3,500,000	36.34%
Sons of Abdullah Mohammed Al Blihed Company	2,300,000	23.88%
Abdulaziz Abdulrahman Abdullah Al Mudimigh	1,800,000	18.69%
GCCSG	800,000	8.31%
Fahad Nasser Fhaid Al Dosari	700,000	7.27%
Jeser Real Estate Development Company	60,000	0.62%
Ibrahim Abdullah Rashid Al Hedaithy	15,000	0.16%

- a) No. of units owned by unit holders and their respective holdings in Fund remain unchanged during the current and prior period.
- 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.

8. CONTINGENCIES AND COMMITMENTS

During the year 2017, 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 condensed interim financial statements.

There were no other commitments as the reporting date.

MEFIC REAL ESTATE INCOME FUND
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
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(Saudi Riyals)

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 period (2018: Nil).

10. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk and interest rate risk).

This condensed interim financial information does not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Fund's audited annual financial statements for the year ended 31 December 2018.

There have been no significant changes in the risk management policies since the year end.

11. APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved by the Fund's Board on 11 Dhul Qa'adah 1440H corresponding to 14 July 2019G.
