

**MEFIC REIT FUND**  
Managed by  
MIDDLE EAST FINANCIAL INVESTMENT COMPANY  
**FINANCIAL STATEMENTS**  
**For the year ended 31 December 2020**  
together with the  
**INDEPENDENT AUDITOR'S REPORT**

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**THE FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**  
For the year ended 31 December 2020

---

<b>INDEX</b>	<b>PAGE</b>
Independent auditor's report	2-5
Statement of financial position	6
Statement of profit or loss and other comprehensive income	7
Statement of changes in net assets attributable to Unitholders	8
Statement of cash flows	9
Notes to the financial statements	10 - 31

---

## INDEPENDENT AUDITOR'S REPORT

**To: The Unitholders 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 2020 and the statements of profit or loss and other comprehensive income, changes in net assets attributable to Unitholders and cash flows for the year then ended, and notes 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 2020, 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 Chartered and Professional 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 2020. 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:

<b>Revenue recognition</b>	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Revenue comprise of rental income from investments properties.</p> <p>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.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Review of revenue recognition accounting policy.</li> <li>• Substantive tests of transactions on a sample basis.</li> <li>• Testing revenue cut-off at the period end and an analytical review of revenue.</li> </ul>
<p>Refer to note (5g) for accounting policy.</p>	

**Key audit matters (Continued)**

<b>Valuation of investment properties</b>	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Investments properties comprise a portfolio of five investment properties and two 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 valutors to perform a formal valuation of the Fund's investments properties as at the reporting date.</p> <p>We considered this as a key audit matter given the significance of the valuation on the financial statements.</p>	<p>Our procedures included</p> <ul style="list-style-type: none"> <li>• Ensuring initial recognition and subsequent measurement of investment properties as per IFRS.</li> <li>• Performing impairment test to assess recoverable amounts of investment properties and determining impairment charge if any.</li> <li>• An assessment of the appropriateness of the valuation technique used to value the investments.</li> </ul>
Refer to note (5h) and (5i) for accounting policy and note 6 and 7 for relevant disclosure.	

**Other information**

Management is responsible for the other information. The other information in the annual report comprises Fund Managers' report to Unitholders 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 controls 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 Fund Board, are responsible for overseeing the Fund's financial reporting process.

### **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 controls.
- Obtain an understanding of internal controls 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 controls.
- 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 controls 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.**

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



Riyadh, on 18 Sha'ban 1442 H  
Corresponding to: 31 March 2021 G

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2020  
(Saudi Riyals)

	Notes	<u>31 December 2020</u>	<u>31 December 2019</u>
<b>ASSETS</b>			
Investment properties	6	<b>918,847,029</b>	962,611,573
Intangible assets - right of benefit	7	<b>128,553,200</b>	219,697,453
Right-of-use assets	8	<b>80,641,904</b>	117,709,869
Accounts receivable	9	<b>31,237,558</b>	47,911,512
Prepaid expenses and other receivables	10	<b>6,513,560</b>	1,814,280
Cash and cash equivalents	11	<b>5,305,593</b>	2,288,484
<b>Total assets</b>		<b><u>1,171,098,844</u></b>	<u>1,352,033,171</u>
<b>LIABILITIES</b>			
Long term loans	12	<b>347,222,486</b>	302,322,486
Accounts payable	13	<b>47,300,000</b>	128,682,879
Lease liabilities	14	<b>92,415,256</b>	121,253,695
Contract liabilities	15	<b>5,821,308</b>	27,660,018
Fund Manager transaction fee	21	<b>2,630,666</b>	11,946,885
Accrued expenses and other liabilities	16	<b>3,523,548</b>	3,084,978
Finance charges payable	12	<b>2,495,715</b>	2,828,901
<b>Total liabilities</b>		<b><u>501,408,979</u></b>	<u>597,779,842</u>
<b>Net assets attributable to Unitholders</b>		<b><u>669,689,865</u></b>	<u>754,253,329</u>
<b>Units in issue – numbers</b>		<b><u>73,276,800</u></b>	<u>73,276,800</u>
<b>Net assets value - per unit</b>		<b><u>9.1392</u></b>	<u>10.2932</u>
<b>Contingences and commitments</b>	18		

The accompanying notes from 1 to 28 form an integral part of these financial statements.

**MEFIC REIT FUND**  
 Managed by Middle East Financial Investment Company  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
 For the year ended 31 December 2020  
 (Saudi Riyals)

	Notes	2020	2019
<b>INCOME</b>			
Rental income		65,874,499	95,753,865
<b>Total income</b>		<b>65,874,499</b>	<b>95,753,865</b>
<b>EXPENSES</b>			
Financing cost		(16,426,164)	(17,095,974)
Amortization of right of benefit		(15,224,299)	(18,970,038)
Depreciation of investment properties		(6,213,715)	(4,806,387)
Depreciation of right-of-use assets	8	(9,549,667)	(10,781,860)
Financing cost on lease liabilities	14	(5,275,230)	(3,061,966)
Operating expenses	17	(14,248,214)	(8,925,208)
<b>Total expenses</b>		<b>(66,937,289)</b>	<b>(63,641,433)</b>
<b>Operating (loss) / profit</b>		<b>(1,062,790)</b>	32,112,432
<b>Other non-operating income / losses</b>			
Impairment of accounts receivable	9	(27,250,803)	(3,163,408)
Impairment of prepaid expenses and other receivables	10	(660,273)	-
Impairment of Investment in properties	6	(37,550,829)	(3,113,844)
Other income, net	20	280,431	2,144,707
<b>(Loss) / profit for the year</b>		<b>(66,244,264)</b>	27,979,887
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive (loss) / income</b>		<b>(66,244,264)</b>	27,979,887

The accompanying notes from 1 to 28 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 UNITHOLDERS**  
 For the year ended 31 December 2020  
 (Saudi Riyals)

	<u>2020</u>	<u>2019</u>
<b>Net assets value at 1 January</b>	<b>754,253,329</b>	753,841,041
(Loss) / profit and total comprehensive (loss) / income for the year	<b>(66,244,264)</b>	27,979,887
Less: dividends	<b>(18,319,200)</b>	(27,567,599)
<b>Net assets value at 31 December</b>	<b><u>669,689,865</u></b>	<u>754,253,329</u>

**UNIT TRANSACTIONS**

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

	<u>2020</u>	<u>2019</u>
	Units	
<b>Units at 1 January / 31 December</b>	<b><u>73,276,800</u></b>	<u>73,276,800</u>

The accompanying notes from 1 to 28 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 2020  
(Saudi Riyals)

	Notes	2020	2019
<b><u>Cash flow from operating activities</u></b>			
<b>(Loss) / profit for the year</b>		<b>(66,244,264)</b>	27,979,887
<i>Adjustments for non-cash items:</i>			
Depreciation of investment properties		<b>6,213,715</b>	4,806,387
Amortization of right of benefit		<b>15,224,299</b>	18,970,038
Depreciation of right-of-use assets	8	<b>9,549,667</b>	10,781,860
Finance cost		<b>16,426,164</b>	-
Finance cost on lease liabilities	14	<b>5,275,230</b>	3,061,966
Impairment of accounts receivable	9	<b>27,250,803</b>	3,163,408
Impairment of prepaid expenses and other receivables	10	<b>660,273</b>	-
Impairment of Investment in properties	6	<b>37,550,829</b>	3,113,844
Loss on transfer of property	13	<b>4,565,431</b>	-
		<b>56,472,147</b>	71,877,390
<i>Changes in operating assets and liabilities:</i>			
Accounts receivable		<b>(10,576,849)</b>	(12,358,376)
Prepaid expenses and other receivables		<b>(5,359,553)</b>	(805,175)
Accounts payable		<b>(10,500,000)</b>	(30,000,000)
Contract liabilities		<b>(21,838,710)</b>	(19,025,533)
Fund Manager transaction fee		<b>(9,316,219)</b>	-
Accrued expenses and other liabilities		<b>438,570</b>	(259,304)
Financing cost paid		<b>(16,759,350)</b>	(1,400,774)
<b>Net cash (used in) / from operating activities</b>		<b>(17,439,964)</b>	8,028,228
<b><u>Cash flow from investments activities</u></b>			
Arrangement cost lease transfer	14	<b>(223,727)</b>	-
<b>Net cash used in investments activities</b>		<b>(223,727)</b>	-
<b><u>Cash flow from financing activities</u></b>			
Dividends paid	22	<b>(18,319,200)</b>	(27,567,599)
Repayment of lease hold liability	14	<b>(5,900,000)</b>	(10,300,000)
Long term loan obtained during the year	12	<b>44,900,000</b>	27,383,637
<b>Net cash from / (used in) financing activities</b>		<b>20,680,800</b>	(10,483,962)
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>3,017,109</b>	(2,455,734)
<b>Cash and cash equivalents at 1 January</b>		<b>2,288,484</b>	4,744,218
<b>Cash and cash equivalents at 31 December</b>	11	<b>5,305,593</b>	2,288,484

The accompanying notes from 1 to 28 form an integral part of these financial statements.

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

---

**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 novel strain of coronavirus (Covid-19) was first identified at the end of December 2019 and subsequently declared as a pandemic in March 2020 by the World Health Organization (WHO). Covid-19 continues to spread in some regions around the World, including the Kingdom of Saudi Arabia and resulted in travel restrictions and curfew in the cities and hence a slowdown of economic activities and shutdown of many sectors at global and local levels.

The extent to which coronavirus pandemic impacts the Fund’s business, operations, and financial results is uncertain and depends on many factors and future developments, that the Fund may not be able to estimate reliably during the current year. These factors include the virus transmission rate, the duration of the outbreak, precautionary actions that may be taken by governmental authorities to reduce the spread of the epidemic and the impact of those actions on economic activity.

As of the date of the issuance of the financial statements for the year ended 31 December 2020, management experienced fall in fair values of investment properties resulting in impairment losses. The Fund Manager will continue to evaluate the nature and extent of the impact on its business and financial results.

**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) endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organisation for Chartered and Professional 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, using the accruals basis of accounting.

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.

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

---

**BASIS OF PREPARATION (continued)**

**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. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS**

**a. New standards, interpretations and amendments effective in current year**

The following are the new standards, interpretations and amendments to standards that are effective in the current year.

<b>Standards</b>	<b>Title</b>	<b>Effective date</b>
IAS 1	Presentation of Financial Statements- Amendments regarding the definition of materiality	1 January 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reforms	1 January 2020
IFRS 16	Amendment-to provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification	1 June 2020
	Revised Conceptual Framework for Financial Reporting	1 January 2020

**IAS 1 - Presentation of Financial Statements**

Amendments to its definition of material to make it easier for companies to make materiality judgements. The materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

**IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors**

The amendments are intended to make the definition of material easier to understand and are not intended to alter the underlying concept of materiality in IFRS. In addition, the IASB has also issued guidance on how to make materiality judgements when preparing general purpose financial statements in accordance with IFRS.

**Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform**

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

**MEFIC REIT FUND**  
 Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
 For the year ended 31 December 2020  
 (Saudi Riyals)

**NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS (continued)**

**Amendments to IFRS 16 Covid-19 Related Rent Concessions**

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may not elect to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted.

**Conceptual Framework for Financial Reporting issued on 29 March 2018**

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

The Fund does not have a material impact on its financial statements from the above.

**b. New standards, interpretations and amendments not yet effective**

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Fund has decided not to adopt early.

The most significant of these are as follows:

<b>Standards</b>	<b>Title</b>	<b>Effective date</b>
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reforms – Phase 2	1 January 2021
IFRS 3	Business Combinations-Amendments updating a reference to the Conceptual Framework	1 January 2022
IAS 37	Provisions, Contingent Liabilities and Contingent Assets - Amendments regarding the costs to include when assessing whether a contract is onerous	1 January 2022
IAS 16	Property, Plant and Equipment - Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use	1 January 2022
IFRS 1	Annual Improvements to IFRS Standards 2018-2020	1 January 2022
IFRS 4	Insurance Contracts-Amendments regarding the expiry date of the deferral approach	1 January 2023
IAS1	Presentation of Financial Statements - Amendments regarding the classification of liabilities	1 January 2023
IFRS 9	Amendments regarding the interaction of IFRS 4 and IFRS 9	1 January 2023
IFRS 17	Insurance Contracts - Amendments to address concerns and implementation challenges that were identified after IFRS 17	1 January 2023

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

---

**5. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been adopted by the Fund and applied consistently throughout all years 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 Unitholders 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.

**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.

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

---

**SIGNIFICANT ACCOUNTING POLICIES (continued)**

***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").

***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.

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

---

**SIGNIFICANT ACCOUNTING POLICIES (continued)**

*i) Financial assets (continued)*

**(IV) Impairment of Financial Assets (continued)**

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.

*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.

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

---

**SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**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.

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

---

**SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(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.

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) 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.

**l) 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.

**MEFIC REIT FUND**  
 Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
 For the year ended 31 December 2020  
 (Saudi Riyals)

**6. INVESTMENT PROPERTIES**

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

**31 December 2020**

Properties	Cost			Accumulated depreciation	Impairment	Net book value
	Land	Building	Total			
Drnef Ajjad	69,094,413	58,210,587	127,305,000	(3,274,347)	(12,339,062)	111,691,591
Drnef Kuddai	27,002,638	31,992,362	58,995,000	(1,799,570)	(4,528,375)	52,667,055
Tihama	37,177,236	8,272,764	45,450,000	(465,343)	(2,139,719)	42,844,938
Souq Sharq	587,870,252	93,779,748	681,650,000	(5,275,110)	(13,198,633)	663,176,257
The PAD	9,934,082	45,285,475	55,219,557	(1,407,329)	(5,345,040)	48,467,188
	<b>731,078,621</b>	<b>237,540,936</b>	<b>968,619,557</b>	<b>(12,221,699)</b>	<b>(37,550,829)</b>	<b>918,847,029</b>

**31 December 2019**

Properties	Cost			Accumulated depreciation	Impairment	Net book value
	Land	Building	Total			
Drnef Ajjad	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
	<b>731,078,621</b>	<b>240,654,780</b>	<b>971,733,401</b>	<b>(6,007,984)</b>	<b>(3,113,844)</b>	<b>962,611,573</b>

The percentage used to allocate the cost between land and building were determined by the independent evaluator. The properties have significant impairments in their values as per the independent valuator's reports. The depreciation of all investment properties was calculated using straight-line method over 40 years.

**Fair value of investment properties**

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

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

**31 December 2020**

	Book value	Valuer 1	Valuer 2
Drnef Ajjad	111,691,591	114,000,000	112,293,715
Drnef Kuddai	52,667,055	54,186,300	52,747,428
Tihama	42,844,938	40,603,515	45,500,000
Souq Sharq	663,176,257	674,000,000	657,041,500
The PAD*	48,467,188	52,072,535	47,676,497
	<b>918,847,029</b>	<b>934,862,350</b>	<b>915,259,140</b>

**31 December 2019**

	Book value	Valuer 1	Valuer 2
Drnef Ajjad	125,485,918	130,596,428	124,629,835
Drnef Kuddai	57,995,239	62,747,875	63,825,000
Tihama	45,191,476	51,250,000	40,603,515
Souq Sharq	678,719,383	679,000,000	676,630,972
The PAD	55,219,557	55,139,400	55,299,713
	<b>962,611,573</b>	<b>978,733,703</b>	<b>960,989,035</b>

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

**INVESTMENT PROPERTIES (continued)**

The fair value figures shown above are for disclosure purpose only and are also used to determine impairment, as stated above.

**7. INTANGIBLE ASSETS - RIGHT OF BENEFIT**

**Leasehold rights of properties**

**31 December 2020**

	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
Plaza 1	66,660,000	(19,235,603)	47,424,397
Dhiyapha	93,930,000	(12,801,197)	81,128,803
	<u>160,590,000</u>	<u>(32,036,800)</u>	<u>128,553,200</u>

**31 December 2019**

	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
Plaza 1	66,660,000	(10,686,446)	55,973,554
Plaza 2 (note 13)	82,820,000	(5,914,325)	76,905,675
Dhiyapha	93,930,000	(7,111,776)	86,818,224
	<u>243,410,000</u>	<u>(23,712,547)</u>	<u>219,697,453</u>

Right of benefits are amortized over the remaining life of the right and 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 were determined by two independent valuers Amaken Valuation Company (Valuer 1) and Taqdeer Company for Real Estate (Valuer 2) as at the reporting date and are given below. Both of these valuers are members of the Saudi Authority of Accredited Valuers (Taqeem).

**31 December 2020**

	<u>Book value</u>	<u>Valuer 1</u>	<u>Valuer 2</u>
Plaza 1	47,424,397	53,400,000	45,170,560
Dhiyapha	81,128,803	90,000,000	93,528,440
	<u>128,553,200</u>	<u>143,400,000</u>	<u>138,699,000</u>

**31 December 2019**

	<u>Book value</u>	<u>Valuer 1</u>	<u>Valuer 2</u>
Plaza 1	55,973,554	67,500,000	65,061,315
Plaza 2 (a)	76,905,675	82,237,740	84,273,710
Dhiyapha	86,818,224	92,500,000	95,250,603
	<u>219,697,453</u>	<u>242,237,740</u>	<u>244,585,628</u>

(a) Refer note 13

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

**8. RIGHT-OF-USE ASSETS**

	<b>31 December 2020</b>
<b>Cost</b>	
Balance as at 1 January 2020	<b>128,491,729</b>
Decrease in right of use asset as a result of lease reassessment	<b>(2,478,373)</b>
Transferred to the Fund Manager (note 13)	<b>(26,955,908)</b>
Balance as at 31 December 2020	<b>99,057,448</b>
<b>Accumulated Depreciation:</b>	
Balance as at 1 January 2020	<b>(10,781,860)</b>
Charge for the year	<b>(9,549,667)</b>
Transferred to the Fund Manager (note 13)	<b>1,915,983</b>
Balance as at 31 December 2020	<b>(18,415,544)</b>
<b>Net book value as at 31 December 2020</b>	<b>80,641,904</b>
Net book value as at 31 December 2019	<b>117,709,869</b>

**9. ACCOUNTS RECEIVABLE**

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

	<b>31 December 2020</b>	<b>31 December 2019</b>
Rent receivables	<b>51,513,378</b>	45,166,539
Other receivable *	<b>4,230,010</b>	-
Acquisition gain receivables	<b>5,908,381</b>	5,908,381
Less: Allowance for expected credit losses	<b>(30,414,211)</b>	(3,163,408)
	<b>31,237,558</b>	<b>47,911,512</b>

\* During the year, Design and Built, a master tenant for a property (Dhiyapha) proposed to cancel the master tenancy agreement with the Fund on 14 March 2020. The Fund agreed to cancel the master tenancy agreement and as a result, rents received in advance by Design and Built from tenants before cancelation of master tenancy agreement are treated as other receivable from Design and Built.

Movement in allowance for expected credit losses is as follows:

	<b>31 December 2020</b>	<b>31 December 2019</b>
Balance at the beginning of the year	<b>3,163,408</b>	-
Increase in expected credit losses during the year	<b>27,250,803</b>	3,163,408
<b>Balance at the end of the year</b>	<b>30,414,211</b>	<b>3,163,408</b>

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.

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

**ACCOUNTS RECEIVABLE (continued)**

<b>31 December 2020</b>	<b>Accounts receivable</b>			
	<b>Months past due</b>			
	<b><u>0-6 Months</u></b>	<b><u>6-12 Months</u></b>	<b><u>More than 12 months</u></b>	<b><u>Total</u></b>
Expected credit loss rate	17.79%	38.84%	73.68%	
Gross accounts receivable	16,565,168	16,514,175	28,572,426	61,651,769
Expected credit loss	(2,947,114)	(6,414,838)	(21,052,259)	(30,414,211)
Carrying amount	<b>13,618,054</b>	<b>10,099,337</b>	<b>7,520,166</b>	<b>31,237,558</b>

<b>31 December 2019</b>	<b>Accounts receivable</b>			
	<b>Months past due</b>			
	<b><u>0-6 Months</u></b>	<b><u>6-12 Months</u></b>	<b><u>More than 12 months</u></b>	<b><u>Total</u></b>
Expected credit loss rate	0%	0%	10.35%	
Gross accounts receivable	6,156,420	14,379,007	30,539,493	51,074,920
Expected credit loss	-	-	(3,163,408)	(3,163,408)
Carrying amount	<b>6,156,420</b>	<b>14,379,007</b>	<b>27,376,085</b>	<b>47,911,512</b>

**10. PREPAID EXPENSES AND OTHER RECEIVABLES**

	<b><u>31 December 2020</u></b>	<b><u>31 December 2019</u></b>
VAT receivable	6,913,360	1,814,280
Other receivables	260,473	-
Less: Allowance for expected credit losses	(660,273)	-
	<b>6,513,560</b>	<b>1,814,280</b>

**11. CASH AND CASH EQUIVALENTS**

	<b><u>31 December 2020</u></b>	<b><u>31 December 2019</u></b>
Cash held with custodian	50,986	92,479
Cash held by SPV	5,254,607	2,196,005
	<b>5,305,593</b>	<b>2,288,484</b>

**12. 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.

On 16 February 2020, second tranche of loan amounting to SR 44,900,000 was received. The loan arrangement fee in 2020 was SR 471,450 and it was expensed during 2020 as a period cost.

The outstanding drawdown as at 31 December 2020 was SR 347.22 million (2019: SR 302.32 million). The financial charges payable on this loan as at 31 December 2020 were SR 2.5 million (2019: SR 2.83 million). The loan is secured against investment properties of the Fund for a maximum exposure of double the amount of loan.

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

**13. ACCOUNTS PAYABLE**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Payable to Fahad Ibrahim Saad Al Moussa *	<b>16,000,000</b>	-
JESER Real Estate Development Company **	-	70,882,879
Higher Education Fund - DPM managed by the Fund Manager (note 21)	<b>20,200,000</b>	30,200,000
Nasser Al-Dosseri - Al-Qannas Fund - DPM managed by the Fund Manager (note 21)	-	16,500,000
Al-Rukn Al-Mateen (Unitholder of Al-Qannas Fund) (note 21)	<b>10,000,000</b>	10,000,000
Dividend payable to Al-Rukn Al-Mateen (Unitholder of Al-Qannas Fund) (note 21)	<b>1,100,000</b>	1,100,000
	<b>47,300,000</b>	128,682,879

\* During the year, Fahad Ibrahim Saad Almoussa, a master tenant for the investment properties Drnef Ajjad and Drnef Kuddai proposed to cancel the master tenancy agreement with the Fund on 1 March 2020 and agree to pay a penalty of SR 8.9 million. The Fund agreed to cancel the master tenancy agreement and as a result, the Fund is obliged to repay the unused advance received in prior year amounting to SR 12 million (note 15). The Fund also agreed to reimburse the amount of VAT amounting to SR 9 million paid by master tenant to GAZT in respect of initial sale of properties in 2018. SR 5 million was paid during the year.

\*\* During the year, the Fund transferred a property (Plaza 2) to JESER Real Estate Development Company (subsidiary of the Fund Manager) and the piece of leased land as settlement of amount due. The property and the land had book value as at 31 December 2019 amounting to SR 76.9 million and SR 25.37 million respectively. The transfer of Plaza 2 resulted in a loss of SR 4.57 million. The transfer of the net assets was concluded on 29 April 2020. Following table details the de-recognition of balances as a result of transfer:

	<b>Notes</b>	<b>29 April 2020</b>
<b>Assets de-recognized</b>		
Intangible assets - right of benefit – Plaza 2 cost on 31 December 2019	7	<b>82,820,000</b>
Intangible assets - right of benefit – Plaza 2 accumulated amortization on 31 December 2019	7	<b>(5,914,325)</b>
Intangible assets - right of benefit – Plaza 2 amortization for the year	7	<b>(985,721)</b>
Right-of-use asset - Plaza 2 land cost on 31 December 2019	8	<b>26,955,908</b>
Right-of-use asset - Plaza 2 land opening accumulated depreciation on 31 December 2019	8	<b>(1,585,641)</b>
Right-of-use asset - Plaza 2 land depreciation for the year	8	<b>(330,342)</b>
		<b>100,959,879</b>
<b>Liabilities de-recognized</b>		
Lease liabilities relating to land of Plaza 2 on 29 April 2020	14	<b>25,511,569</b>
Payable to JESER Real Estate Development Company on 29 April 2020	13	<b>70,882,879</b>
		<b>96,394,448</b>
Loss on transfer of property (note 20)		<b>4,565,431</b>

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

**14. LEASE LIABILITIES**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Balance as at 1 January	121,253,695	128,491,729
Decrease in lease liability as a result of lease reassessment	(2,478,373)	-
Finance cost	5,275,230	3,061,966
Transferred to the Fund Manager (note 13)	(25,511,569)	-
Lease transfer adjustment	(223,727)	-
Payments made	(5,900,000)	(10,300,000)
<b>Balance as at 31 December</b>	<b>92,415,256</b>	<b>121,253,695</b>

**15. CONTRACT LIABILITIES**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Balance at the beginning of the year	27,660,018	46,685,551
Recognized in rental income during the year	(28,825,915)	(19,025,533)
Advanced received during the year	18,987,205	-
Transferred to accounts payable (note 13)	(12,000,000)	-
<b>Balance at the end of the year</b>	<b>5,821,308</b>	<b>27,660,018</b>

Contract liabilities represent advances received from customers.

**16. ACCRUED EXPENSES AND OTHER LIABILITIES**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Operational expenses payable	1,753,896	1,603,747
Transaction cost payable	-	448,240
Legal fees	203,633	210,000
Valuation expenses	44,920	108,203
Custody fee	23,888	250,290
Audit fee	51,000	84,000
Management fee payable	1,098,008	360,810
Shariah fee	44,688	19,688
VAT payable	40,192	-
Others	263,323	-
	<b>3,523,548</b>	<b>3,084,978</b>

**MEFIC REIT FUND**  
 Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
 For the year ended 31 December 2020  
 (Saudi Riyals)

**17. OPERATING EXPENSES**

	<b>2020</b>	<b>2019</b>
Operating expenses for Plaza 1	<b>3,145,954</b>	3,499,222
Operating expenses for Souq Sharq	<b>4,418,462</b>	3,533,123
Operating expenses for Dhiyapha	<b>677,307</b>	-
Operating expenses for Drnef	<b>675,000</b>	-
Operating expenses for Tihama	<b>395,202</b>	-
Management fee	<b>2,409,228</b>	360,810
Transaction fee	<b>815,153</b>	-
Listing and registration fee	<b>603,845</b>	627,150
Facility arrangement fee	<b>214,387</b>	-
Custody fees	<b>172,088</b>	206,192
Valuation expense	<b>81,504</b>	230,450
Audit fees	<b>70,550</b>	84,000
Legal fees	<b>19,469</b>	210,000
Shariah fee	<b>25,000</b>	13,125
Other expense	<b>525,065</b>	161,136
	<b>14,248,214</b>	8,925,208

**18. 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.

**19. 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.

**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.

**MEFIC REIT FUND**  
 Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
 For the year ended 31 December 2020  
 (Saudi Riyals)

**20. OTHER INCOME, NET**

	<u>2020</u>	<u>2019</u>
Loss on transfer of property (note 13)	(4,565,431)	-
Amount recovered from previously written off debts	3,379,030	2,021,856
Write-back of liabilities	-	122,851
Transaction gain from termination of tenancy agreements	1,450,835	-
Others	15,997	-
	<u>280,431</u>	<u>2,144,707</u>

**21. 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 Unitholders, 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 with related parties for the year ended 31 December 2020 are as follows:

<u>Related Party</u>	<u>Nature of transaction</u>	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Middle East Financial Investment Company Fund 2 (Fund managed by the Fund Manager)	Purchase of units	a	(80,800)	(4,186,387)
	Sale of units	a	3,223,629	-
Higher Education Fund - DPM managed by the Fund Manager	Principal repayment		(10,000,000)	(30,000,000)
Middle East Financial Investment Company (the "Fund Manager")	Management fee		(2,409,228)	(360,810)
	Facility arrangement fee		(214,387)	-
Nasser Al-Dosseri - Al-Qannas Fund - DPM managed by the Fund Manager	Principal repayment		(16,500,000)	-

- a) Middle East Financial Investment Company Fund 2 (Fund managed by the Fund Manager) purchased and sold MEFIC REIT Fund units from Saudi Stock Market. As at 31 December 2020, this fund owns nil units (31 December 2019: 471,440 units) in MEFIC REIT Fund, which is equal to 0.00% (31 December 2019: 0.64%) of total REIT units. The market value per unit of MEFIC REIT Fund as at the reporting date was SR 6.21 per unit.

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

**TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)**

Related party balances as the reporting date were as follows:

<b><u>Related Party</u></b>	<b><u>Balance due to</u></b>	<b>As at</b>	
		<b><u>31 December 2020</u></b>	<b><u>31 December 2019</u></b>
Middle East Financial Investment Company (the "Fund Manager")	Transaction fee payable	<b>2,630,666</b>	11,946,885
	Management fee payable	<b>1,098,008</b>	360,810
JESER Real Estate development Company	Payable for Souq Sharq Property	-	70,882,879
Higher Education Fund - DPM managed by the Fund Manager	Unpaid principal	<b>20,200,000</b>	30,200,000
Nasser Al-Dosseri - Al-Qannas Fund - DPM managed by the Fund Manager	Unpaid principal	-	16,500,000
Al-Rukn Al-Mateen (Unitholder of Al-Qannas Fund)	Unpaid principal	<b>10,000,000</b>	10,000,000
Dividend payable to Al-Rukn Al-Mateen (Unitholder of Al-Qannas Fund)	Unpaid principal	<b>1,100,000</b>	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

All Funds managed by Fund Manager and their previous Unitholders are treated as related parties for disclosure purpose.

**22. DIVIDENDS**

On 31 March 2020, the Fund announced dividend of SR 0.25 per unit and total liability in this regard was recognized amounting to SR 18.32 million.

**23. 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.

**MEFIC REIT FUND**  
 Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
 For the year ended 31 December 2020  
 (Saudi Riyals)

**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:

	<b>Carrying amount</b>	<b>On demand or less than six months</b>	<b>Six to Twelve months</b>	<b>Over one year</b>
<b>Financial liabilities at amortized cost</b>				
Long term loans	347,222,486	8,489,590	8,489,590	415,139,204
Accounts payable	47,300,000	47,300,000	-	-
Fund Manager transaction fee	2,630,666	2,630,666	-	-
Finance charges payable	2,495,715	2,495,715	-	-
<b>As at 31 December 2020</b>	<b>399,648,867</b>	<b>60,915,971</b>	<b>8,489,590</b>	<b>415,139,204</b>

	<b>Carrying amount</b>	<b>On demand or less than six months</b>	<b>Six to Twelve months</b>	<b>Over one year</b>
<b>Financial liabilities at amortized cost</b>				
Long term loans	302,322,486	8,281,256	8,281,256	401,697,561
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	-	-
<b>As at 31 December 2019</b>	<b>445,781,151</b>	<b>151,739,921</b>	<b>8,281,256</b>	<b>401,697,561</b>

**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.

**MEFIC REIT FUND**  
 Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
 For the year ended 31 December 2020  
 (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	<u>31 December 2020</u>	<u>31 December 2019</u>
<b>Financial assets at amortized cost</b>			
Accounts receivable	9	31,237,558	47,911,512
Cash and cash equivalents	11	<u>5,305,593</u>	<u>2,288,484</u>
		<b><u>36,543,151</u></b>	<b><u>50,199,996</u></b>
<b>Financial liabilities at amortized cost:</b>			
Long term loan	12	347,222,486	302,322,486
Accounts payable	13	47,300,000	128,682,879
Lease liabilities	14	92,415,256	121,253,695
Fund Manager transaction fee	21	2,630,666	11,946,885
Accrued expenses and other liabilities	16	3,523,548	3,084,978
Finance charges payable	12	<u>2,495,715</u>	<u>2,429,077</u>
		<b><u>495,587,671</u></b>	<b><u>569,720,000</u></b>

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

**24. MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

<b>As at 31 December 2020</b>	<b>Within 12 months SR</b>	<b>After 12 months SR</b>	<b>Total SR</b>
<b>ASSETS</b>			
Investment properties	-	918,847,029	918,847,029
Intangible assets - right of benefit	-	128,553,200	128,553,200
Right-of-use assets	-	80,641,904	80,641,904
Accounts receivable	31,237,558	-	31,237,558
Prepaid expenses and other receivables	6,513,560	-	6,513,560
Cash and cash equivalents	5,305,593	-	5,305,593
<b>TOTAL ASSETS</b>	<b>43,056,711</b>	<b>1,128,042,133</b>	<b>1,171,098,844</b>
<b>LIABILITIES</b>			
Long term loans	-	347,222,486	347,222,486
Accounts payable	47,300,000	-	47,300,000
Lease liabilities	5,248,250	87,167,006	92,415,256
Contract liability	5,821,308	-	5,821,308
Fund Manager transaction fee	2,630,666	-	2,630,666
Accrued expenses and other liabilities	3,523,548	-	3,523,548
Finance charges payable	2,495,715	-	2,495,715
<b>TOTAL LIABILITIES</b>	<b>67,019,487</b>	<b>434,389,492</b>	<b>501,408,979</b>

Although current liabilities exceeded current assets by SR 23.96 million at 31 December 2020, the Fund will be able to generate additional cash flows from properties in Mekkah that were not operational for most of 2020 as they will be re-opened in 2021. Also, the Fund is in a position to defer, at its sole discretion, repayments of balances due to related parties to 2022. Due to related parties are expected to be settled only after settlement of liabilities towards third parties.

<b>As at 31 December 2019</b>	<b>Within 12 months SR</b>	<b>After 12 months SR</b>	<b>Total SR</b>
<b>ASSETS</b>			
Investment properties	-	962,611,573	962,611,573
Intangible assets - right of benefit	-	219,697,453	219,697,453
Right-of-use assets	-	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 equivalents	2,288,484	-	2,288,484
<b>TOTAL ASSETS</b>	<b>52,014,276</b>	<b>1,300,018,895</b>	<b>1,352,033,171</b>
<b>LIABILITIES</b>			
Long term loans	-	302,322,486	302,322,486
Accounts payable	128,682,879	-	128,682,879
Lease liabilities	5,956,578	115,297,117	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
<b>TOTAL LIABILITIES</b>	<b>180,160,239</b>	<b>417,619,603</b>	<b>597,779,842</b>

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

---

**25. 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;

**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 included in level 2 as required by IFRSs.

**Transfers between fair value hierarchy levels**

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 hierarchy levels during the current or prior year reported.

**26. SUBSEQUENT EVENTS**

There have been no significant subsequent events since the year ended 31 December 2020 that would have a material impact on the financial position of the Fund as reflected in these financial statements.

**MEFIC REIT FUND**  
Managed by Middle East Financial Investment Company  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2020  
(Saudi Riyals)

---

**27. LAST VALUATION DATE**

The last valuation date of the year was 31 December 2020.

**28. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved by the Fund's Board on 18 Sha'ban 1442 H corresponding to 31 March 2021G.

---