

MEFIC REAL ESTATE INCOME FUND
Managed by
MIDDLE EAST FINANCIAL INVESTMENT COMPANY
UNAUDITED INTERIM CONDENSED FINANCIAL
STATEMENTS FOR THE SIX MONTHS PERIOD ENDED
30 JUNE 2020
together with the
INDEPENDENT AUDITOR'S REVIEW REPORT

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REVIEW REPORT
For the six months' period ended 30 June 2020

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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 interim condensed financial statements of **MEFIC Real Estate Income Fund** ("the Fund") managed by Middle East Financial Investment Company ("MEFIC") that include the interim condensed statement of financial position as of 30 June 2020 and the related interim condensed statements of comprehensive income, changes in net assets attributable to Unitholders and cash flows for the six months period then ended, and a summary of selected significant accounting policies and other explanatory notes from (1) to (13).

Management is responsible for the preparation and fair presentation of these Interim condensed 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 Interim condensed 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared in all material respects, in accordance with IAS 34 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: 14 Muharram 1442 (H)
Corresponding to: 02 September 2020 (G)

MEFIC REAL ESTATE INCOME FUND
 Managed by Middle East Financial Investment Company
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
 As at 30 June 2020
 (Saudi Riyals)

	Notes	30 June 2020 Unaudited	31 December 2019 Audited
ASSETS			
Cash at bank - current account		601,726	622,726
Receivable from a Government authority	7	116,605,509	95,000,000
Accrued commission income		-	28,526,836
Total assets		117,207,235	124,149,562
LIABILITIES			
Due to a related party	7	6,000,000	6,000,000
Management fee payable and accrued facility fee	6&7	4,549,098	3,926,906
Deposit payable	7	-	609,901
Dividend payable	7	1,610,000	1,610,000
Other expenses payable and accruals	8	1,867,661	375,748
Total liabilities		14,026,759	12,522,555
Net assets attributable to the Unitholders		103,180,476	111,627,007
Units in issue – numbers		9,630,000	9,630,000
Net assets value - per unit		10.7145	11.5916
Contingencies and commitments	9		

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

MEFIC REAL ESTATE INCOME FUND
 Managed by Middle East Financial Investment Company
INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
 For the six month period ended 30 June 2020
 (Saudi Riyals)

	Notes	<u>30 June 2020</u>	<u>30 June 2019</u>
INCOME			
Incremental receivable from Government authority	7	21,605,509	-
Liability written back		<u>609,901</u>	<u>-</u>
		22,215,410	
EXPENSES			
Other expenses	6	(1,512,913)	(85,375)
Expected credit losses	7	(28,526,836)	-
Facility fee	7	<u>(622,192)</u>	<u>-</u>
Total expenses		<u>(30,661,941)</u>	<u>(85,375)</u>
Loss for the period		(8,446,531)	(85,375)
Other comprehensive income for the period		-	-
Total comprehensive loss		<u>(8,446,531)</u>	<u>(85,375)</u>

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

MEFIC REAL ESTATE INCOME FUND
 Managed by Middle East Financial Investment Company
**INTERIM CONDENSED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE
 TO UNITHOLDERS (UNAUDITED)**
 For the six month period ended 30 June 2020
 (Saudi Riyals)

	2020	2019
Net assets value at 1 January	111,627,007	111,781,882
Loss and total comprehensive loss for the period	(8,446,531)	(85,375)
Net assets value as at 30 June	<u>103,180,476</u>	<u>111,696,507</u>

TRANSACTIONS WITH UNITHOLDERS

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

	2020	2019
	Units	
Units at 1 January / 30 June	<u>9,630,000</u>	<u>9,630,000</u>

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

MEFIC REAL ESTATE INCOME FUND
 Managed by Middle East Financial Investment Company
INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
 For the six month period ended 30 June 2020
 (Saudi Riyals)

	30 June 2020	30 June 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	(8,446,531)	(85,375)
<i>Adjustment for:</i>		
Incremental receivable from Government authority	(21,605,509)	-
Liability written back	(609,901)	-
Expected credit losses	28,526,836	-
Changes in operating assets and liabilities:		
Other expenses payable	1,491,913	59,125
Management fee payable and accrued facility fee	622,192	-
Net cash used in operating activities	(21,000)	(26,250)
Net decrease in cash and cash equivalents	(21,000)	(26,250)
Cash and cash equivalents at beginning of the period	622,726	88,075
Cash and cash equivalents at the end of the period	601,726	61,825

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

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the six month period ended 30 June 2020
(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’s 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 fifth consecutive year up to 18 March 2021. The revised terms and conditions of the Fund were announced on 17 January 2020.

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

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 period. 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 interim condensed financial statements for the six months ended 30 June 2020, management does not believe that the Covid-19 outbreak significantly affects the Fund’s operations. The Fund’s manager will continue to evaluate the nature and extent of the impact on its business and financial results.

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 interim condensed 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.

MEFIC REAL ESTATE INCOME FUND
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the six month period ended 30 June 2020
(Saudi Riyals)

BASIS OF PREPARATION (continued)

These Interim condensed financial statements are unaudited. The disclosures made in this interim condensed financial statements 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 2019.

The comparative statement of financial position presented in this interim condensed financial statements has been extracted from the annual audited financial statements of the Fund for the year ended 31 December 2019, whereas the comparative interim condensed statement of comprehensive income, interim condensed statement of changes in net assets attributable to unitholders, and interim condensed statement of cash flows are extracted from the unaudited interim condensed financial statements of the Fund for the six months period ended 30 June 2019.

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

3.2 Basis of measurement and going concern assumption

These interim condensed financial statements have been prepared under the historical cost convention, using the accrual basis of accounting and the going concern concept. The contractual term of the Fund will be ending on 18 March 2021 (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 interim condensed 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 Interim condensed financial statements are the same as those applied in the preparation of audited annual financial statements of the Fund for the year ended 31 December 2019.

The Fund has adopted all the new amendments to existing standards, including any consequential amendments to other standards which are applicable for the financial year beginning on or after 1 January 2020. The adoption of these new and amended standards do not have any material effect on this interim condensed financial statements.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of this interim condensed financial statements 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 interim condensed financial statements, 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 2019.

MEFIC REAL ESTATE INCOME FUND
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 (Saudi Riyals)

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 2019: 2%) per annum payable quarterly of the net assets value of the Fund at each valuation day. No management fee was charged to Fund by Fund manager.

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 Unitholders, 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	
		2020	2019
Sons of Abdullah Mohammed Al Blihed Company (the Unitholder)	Deposit received	-	609,901
Middle East Financial Investment Company (the Fund Manager)	Board fee	30,000	30,000
	Shariah Board fee	17,500	17,500
	Facility fee	622,192	-

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

Name of related party	Nature of balance	As at	
		30 June 2020	31 December 2019
Sons of Abdullah Mohammed Al Blihed Company (the Unitholder)	Deposit payable	-	609,901
	Accrued commission income	-	28,526,836
Middle East Financial Investment Company (the Fund Manager)	Dividend payable	1,610,000	1,610,000
	Management fee payable	3,926,906	3,926,906
	Accrued facility fee	622,192	-
	Financing received	6,000,000	6,000,000
	Shariah Board fee	87,500	70,000
	Board fee	262,500	232,500

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TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

Receivable from a Government authority/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 Unitholder) 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 Unitholder) after completion of 5 years at the price of SR 95,000,000; and
- Agreement to lease back the Compound to the Owner at an annual (Hijri year) income of SR 9,500,000.

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

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

The fair value of the Compound determined by two approved appraisers namely Olaat Real Estate ("OPM") and White Cubes Real Estate as of 30 June 2019 (last valuation date) 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 ("Taqeem").

In 2018, the Government of the Kingdom of Saudi Arabia launched a project in the historical city of Deriaiyah where the above mentioned property is located. Subsequently, the above mentioned property was taken over by Deriaiyah Gate, a Government authority.

Accordingly, during 2019, the Fund has derecognized the receivable from Sons of Abdullah Mohammed Al Blihed Company, a related party, of SR 95,000,000 and recognized a receivable from a Government authority in the same nominal amount.

Subsequent to period end, the Fund received appraisal letter from Government authority determining the proceeds to be received in respect of the land taken over and accordingly, increased the amount receivable in this regard based on real estate appraisal by an amount of SR 21.6 million.

In prior years, Sons of Abdullah Mohammed Al Blihed Company (a Unitholder) defaulted in payment of outstanding income of SR 28,526,836 on the SR 95,000,000 receivable and filed a case against the Fund Manager leveling certain charges relating to that income. Subsequently, the Fund Manager filed a case against Sons of Abdullah Mohammed Al Blihed Company for the outstanding amount of SR 28,526,836. The court's verdict was in favor of the Fund and was considered final and therefore the case was submitted to the Court of Enforcement for execution. Subsequent to period end, the counterparty filed for bankruptcy and the Fund's management, after consulting their legal counsel, has written off the entire balance effective 30 June 2020.

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TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

Related party financing

The Fund has outstanding financing of SR 6,000,000 (31 December 2019: 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 largest individual unitholder of the Fund is Higher Education Fund with unitholding of 36.34% at 30 June 2020 (31 December 2019: 36.34%).

8. OTHER EXPENSES PAYABLE AND ACCRUALS

	<u>30 June 2020</u>	<u>31 December 2019</u>
Shariah Board fees	87,500	70,000
Board Fees	262,500	232,500
Legal fees accrual	1,444,500	-
Others	73,161	73,248
	<u>1,867,661</u>	<u>375,748</u>

9. CONTINGENCIES AND COMMITMENTS

There were no material contingencies or commitments at the reporting date.

10. 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 (2019: Nil).

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
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 (Saudi Riyals)

11. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 30 Jun 2020	Unspecified Maturity SR	Within 6 months SR	After 6 months SR	Total SR
ASSETS				
Cash at bank - current account	-	601,726	-	601,726
Receivable from a Government authority	116,605,509	-	-	116,605,509
TOTAL ASSETS	116,605,509	601,726	-	117,207,235
LIABILITIES				
Due to related party	-	6,000,000	-	6,000,000
Management fee payable and accrued facility fee	-	4,549,098	-	3,926,906
Dividend payable	-	1,610,000	-	1,610,000
Other expenses payable and accruals	-	1,867,661	-	622,192
TOTAL LIABILITIES	-	14,026,759	-	14,026,759
As at 31 December 2019	Unspecified Maturity SR	Within 12 months SR	After 12 months SR	Total SR
ASSETS				
Cash at bank- current account	-	622,726	-	622,726
Receivable from a Government authority	95,000,000	-	-	95,000,000
Accrued income	-	28,526,836	-	28,526,836
TOTAL ASSETS	95,000,000	29,149,562	-	124,149,562
LIABILITIES				
Due to related party	-	6,000,000	-	6,000,000
Management fee payable and accrued facility fee	-	3,926,906	-	3,926,906
Deposit payable	-	609,901	-	609,901
Dividend payable	-	1,610,000	-	1,610,000
Other expenses payable and accruals	-	375,748	-	375,748
TOTAL LIABILITIES	-	12,522,555	-	12,522,555

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the six month period ended 30 June 2020
(Saudi Riyals)

12. FINANCIAL INSTRUMENTS – 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).

These interim condensed financial statements do 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 2019.

There have been no significant changes in the risk management policies since 31 December 2019.

13. APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements were approved by the Fund's Board on 14 Muharram 1442H corresponding to 02 September 2020G.
