ميفك ريت
MEFIC REIT

Middle East Financial Investment Company

MEFIC REIT FUND

MEFIC REIT Annual Report | December 2020

Occupancy rates and the percentage of rented and non-rented units during 2020

Property Classification	Property Name	Occupancy rates	Lease status
Investment Properties	Commercial mall in Riyadh	85 %	Managed by an Operator
	Drnef Ajyad In Makkah	76 %	Non-rented
	Drnef Kudai In Makkah	77 %	Non-rented
	Commercial tower in Jeddah	75 %	Managed by an Operator
	The Pad in Dubai	100 %	Leased to Master tenant
Leasehold rights	Plaza 1 in Riyadh	79 %	Managed by an Operator
	Dhiyafa in Riyadh	84 %	Managed by an Operator

Occupancy rate	
Occupancy Rate	83%
Vacancy Rate	17%

The net asset value of the fund / unit	2020	2019
Net asset value “NAV” (SAR)	669,689,865**	754,253,329
Number of units	73,276,800	73,276,800
NAV per unit (SAR / unit)	9.1392	10.2932
Highest and lowest NAV per unit (SAR / unit)	9.1392 / 9.7896	10.29 /10.41
Earnings per share “EPS” Profit (Loss) per Unit (SAR / Unit)	-0.9040	0.3818
Dividend per share “DPS” (SAR / unit)	0.15	0.626*
Dividend Yield on the initial unit price	%1.5	%6.26*
The cumulative dividend yield since the fund's inception	%7.76	%6.26*

* For the period since the fund was operational until December 31, 2019

** As on December 31, 2020

Net profit of the fund	2020	2019
Net profit (loss) during the year 2020 (SAR)	(66,244,264)	27,979,887
Number of issued units (unit)	73,276,800	73,276,800
Net income (loss) per unit (SAR / share) "EPS"	(0.9040)	0.3818

Operating performance and returns

Performance Indicators and Return	Year 2020	Year 2019	Year 2018
Net profit (loss)	(66,244,264)	27,979,888	21,073,041
Total operating income (loss) after deducting all interest and depreciations	(1,062,790)	32,112,432	6,127,328
EBITDA	47,060,860	86,828,657	17,397,811
EBIT	16,073,179	52,270,372	11,453,705
Return on Equity (net profit / equity)	-9.89%	3.71%	
EBITDA / total assets	4.02%	6.42%	
EBITDA / equity	7.03%	11.51%	
Gross return (net profit / NAV at the beginning of the period)	-8.78%	3.71%	

Percentage of Expenses incurred by the fund	2020	2019
Total OPEX and Fund expenses	13,218,668	8,925,208
Total rental income	65,874,499	95,753,865
"OPEX and Fund Expenses" to total rental income	20.07%	9%

In return for services, commissions and fees paid by the fund to external parties	2020	2019
Total operating expenses of the properties (OPEX)	9,311,920	7,180,713
Total operating expenses to the total rental income	**14.14%**	**7%**
Fund expenses		
Fund management fees	2,409,228	360,810
Custodian's fees	172,088	206,192
Other fees	525,063	12,767
Listing Fees	183,845	207,150
Registration fees	420,000	420,000
Legal fees	19,469	210,000
Valuation Fees	81,504	230,450
Sharia audit fees	25,000	13,125
Audit Fees	70,550	84,000
Total fund expenses	3,906,748	1,744,495
The ratio of fund expenses to the total rental income	**5.93%**	**2%**
Total financing cost	**16,426,164**	**17,095,974**

There are no circumstances in which the fund manager decided to exempt or reduce any fees, and the fund manager did not receive any commissions during the period other than what was mentioned to the unitholders in the T&C as shown below:

Special commissions earned by the fund manager	2020	2019
Fund management fee	2,409,228	360,810
Facility arrangement fee	214,390	0
Transaction fees	815,156	0

Main changes and developments:

- Temporary closure of all MEFIC REIT properties in reference to the directives of the Government of the Kingdom of Saudi Arabia to contain the spread of the emerging corona virus (COVID-19).

- The fund manager has received some requests from tenants related to discount, rescheduling or canceling some of the rents due to the pandemic conditions related to the precautionary measures taken by the government to limit the spread of (COVID-19).

- Extending the rental period for Dhiyafa land rent by extending the leasehold right for additional five years.

- Restructuring the leasing operations of some properties owned by MEFIC REIT Fund by terminating the lease contract for Dhiyafa building for the Design & Build Company, as well as the termination of the lease contract for the Drnef Ajyad Hotel and Drnef Kuddai Hotel after the outbreak of the Corona pandemic and the closure of the city of Makkah, as well as the termination of the lease contract signed with the Tihama Company for Jeddah property.

- Settlement of fund liabilities by transferring Plaza 2 benefit to fund creditors.

- Granting a discount to tenants for the closure period resulting from COVID lockdown.

- Signing a property management contract with the Sustainable Property Company “S Property” to manage Souq Sharq commercial complex, located in the city of Riyadh and Jeddah building.

- Appointing Al-Saleh and Al-Zoman as a tax advisor

Board of Directors:

- Approval of the annual financial statements as of 31/12/2019 for the MEFIC REIT Fund.
- Appointing law firms for rent collections to increase the cash inflows for the fund.
- Converting all tenants to Ejar system.
- Approval of T&C update after the resignation of Mrs. Kholoud Al-Ghatti from the fund's board of directors due to her resignation from MEFIC Capital.
- Approval of the appointment of "CITY PROPERTIES PROPERTY VALUATION LLC" as a valuator for "the pad" located in the Emirate of Dubai - United Arab Emirates.
- Approval of the appointment of the Sustainable Property Company to manage Souq Sharq property.
- Approval of dividend of 18,319,200 Saudi riyals, through the distributed of 0.25 riyals per unit, and its ratio to the initial unit price is 2.50% for the period from 01/07/2019 to 31/12/2019.
- Approval of the termination of the lease contracts for Makkah hotels and the Dhiyafa project
- Approval for not to distribute profits to unit holders for the period from 1 Jan 2020 till 30 June 2020.
- Approval of the financial statements for the first half of 2020
- Appointing the Sustainable Property Company as a real estate mediator for Ejar System conversion.

MEFIC REIT Risk Assessment Report / December 2020

- Based on the instructions of the Capital Market Authority in relation to real estate traded funds, the basic risks related to the MEFIC REIT Fund have been evaluated based on an objective assessment of all risks related to the fund that may have an impact.

Number	Type of risk	Risk Description	Applies	do not apply	Risk evaluation mechanism
1	The risk of not having a guarantee of a return on investment	With regard to the fund manager's making the obligatory donation of the difference in dividends if it falls below the target, There is no guarantee that the fund will succeed in achieving returns for investors, or that the returns will be appropriate with the risks of investing in the fund and the nature of the transactions described in these terms and conditions. It is possible for the value of the units to decrease or for investors to lose some or all of their invested capital	✓		The fund manager does not provide any guarantees that the fund will succeed in achieving returns to investors, except for what has been mentioned in the terms and conditions The fund manager seeks to achieve the best performance for the fund's real estate in order to protect shareholders' rights.
2	Limited operating history risks	The fund does not have an operating history by which potential investors can judge the fund's performance and successes. Although the fund manager has extensive experience in managing real estate funds, the fund manager has limited experience in managing real estate investment funds due to the recentness of their legislation in the Kingdom. In addition, the nature of future investments in the fund as well as the nature of the risks associated with them may differ materially from the investments and strategies that the fund manager undertook in the past. Also, past results achieved by the fund manager are not necessarily indicative of future performance. Therefore, the novelty of the product is a risk as it is difficult to predict the extent of a change in the value of units or in the returns that are supposed to be distributed.	✓		The fund manager has managed an income-generating real estate fund, and as the nature of the income-generating real estate fund is close to the nature of the MEFIC REIT fund, except it is available for trading, the fund manager is making every effort by relying on qualified and experienced people to manage the fund through complete familiarity with the factors that are Affecting the fund and the market conditions in which it is traded.
3	Risks of non-compliance with related regulations	The fund may become ineligible to be a real estate investment traded fund according to the regulatory instructions of real estate investment traded funds, which would have negative effects on the liquidity of their units' trading, which may negatively affect the value of their investment. The requirements to maintain the fund's status as a real estate investment traded fund have not been tested. In addition, subsequent changes may be made to the requirements to maintain the fund's status as a REIT. Prospective investors should note that there is no guarantee that the fund, after being selected to be a real estate investment traded fund, will remain a real estate investment traded fund. Or, it will continue to maintain this status (whether due to non-fulfillment of regulatory requirements or otherwise). In the event that the fund fails to fulfill any of		✓	

Number	Type of risk	Risk Description	Applies	do not apply	Risk evaluation mechanism
		the regulatory requirements necessary to maintain its status, the Capital Market Authority may suspend trading of units or cancel the listing of the fund. The inability to list the fund in the Saudi Stock Exchange "Tadawul" could lead to negative consequences for the possibility of marketing the units and their liquidity and value, which may negatively affect the unit's trading price or return on investment.			
4	The risk of not having liquidity in the market	The fund intends to apply for the units to be accepted for trading on the Saudi Stock Exchange "Tadawul". The acceptance of this application should not be seen as an indication that there will be a liquid market for units or that they will develop, or that if they develop they will continue indefinitely after acceptance. In the event that a liquid trading market is not developed or maintained, the liquidity of the units and their trading prices may be adversely affected. In addition, in the event that this market is not developed, relatively small transactions or decided dealings on units may have a significant negative impact on the market value of units, and it may be difficult to implement actual transactions or decided dealings related to a large number of units at a fixed price. The limited number of units and / or unit owners may indicate the existence of limited liquidity in these units, which may negatively affect the following: (1) the investor's ability to achieve a return on some or all of his investment and / or (2) the price that is from During which this investor can achieve the return and / or (3) the price at which units are traded in the secondary market. In addition, a large percentage of units may be issued to a limited number of investors, which may adversely affect the development of an active liquid market for units. In addition, although the units will be tradable, the market liquidity in regards of units may be less than the market for the shares of listed companies. This may negatively affect the unit's trading price or return on investment.	✓		There are currently no risks arising from not trading the units in the main market, and it should be noted that there is a possibility of a risk of not having liquidity in the market if the fund units are traded in the parallel market.
5	Risks of increased sales of units and changes in prices	The sale of a large number of units by unit owners may lead to a decrease in the unit's trading price, and any rumors about the fund's performance may lead to unit owners selling their units, which will affect the unit price. There are many factors that may negatively affect the market price of units, including the general movement in the local and international stock markets, real estate markets, prevailing and expected economic conditions, interest rates, financing costs, investor trends, and general economic conditions. The unit market may be exposed to fluctuations, and the lack of liquidity may have a negative impact on the market value of units. Accordingly, purchasing these units is suitable only for investors who can bear the risks associated with these investments, which may negatively affect the unit's trading price or return on investment.	✓		
6	Risks of changes in interest rates and general economic conditions	Changes in economic conditions, including interest rates and inflation rates, business conditions, competition, technological developments, political and diplomatic events, and tax laws would materially and negatively affect the business and opportunities of the fund. In particular, an increase in interest rates may cause investors to claim a higher return	✓		The fund entered into a financing agreement "Profit Rate Cap", as the rate of profitability on financing is limited to a higher ceiling, and it was agreed that the profit rate does not

Number	Type of risk	Risk Description	Applies	do not apply	Risk evaluation mechanism
		to compensate for the increase in cash and opportunity costs. As a result, the attractiveness of the units as an investment opportunity may decrease and the demand for them may decrease, which negatively affects the market value of the units. Whereas the fund may resort to financing, any increase in interest rates in the debt market would affect the financing terms of the fund. Changes in interest rates may also affect valuations in the real estate sector in general, which may negatively affect the unit's trading price or return on investment.			reach a higher level than the higher ceiling level in all cases.
7	The risk of trading at a price below the market value of the IPO price	Units may be traded at a price lower than the initial offering price at the time of subscription, and unit owners may not be able to fully recover the value of their investment. Units may be traded at a lower price than their value for several reasons, including unfavorable market conditions, weak investor expectations about the feasibility of the strategy and investment policy for the fund, and an increase in supply over demand for units. This may negatively affect the unit's trading price or return on investment.	✓		The average trading price of the fund's units is less than the listing price, similar to most REIT funds listed in the market, as the company prepares feasibility studies in addition to strategic studies in order to maintain the unit price and not to increase the supply over demand, which contributes to the drop in unit prices.
8	Distributions Volatility Risks	Although the fund, according to the instructions for real estate investment traded funds, is required to distribute at least 90% of its net income to unit owners annually, excluding capital gains resulting from the sale of assets, there are no guarantees regarding future distributions amounts, and the fund may not Able to make any distribution due to unforeseen events that lead to an increase in costs (including capital expenditures in the event of a large-scale and costly renovation work carried out urgently) or a decrease in revenues (such as in the event of low levels of rental income collection). The fund's inability to make annual distributions to unit owners may expose the fund to certain obligations that would weaken the financial performance of the fund, and the fund may also refrain from making any distributions by its financiers, according to the relevant financing documents, and those who have the right in certain cases (such as After the occurrence of a breach under the financing documents) the right to control and control the cash flows of the fund so that it is used to repay the amounts due under the financing documents. It is indicated that any interruption or decrease in the amounts of distributions to unit owners.	✓		Regarding the obligatory donation of distributions differences in the event of a decrease in the targeted distributions in accordance with the specified conditions, however, the fund guarantees a minimum level of returns with a maximum of 2% as mentioned in point No. 1, and regarding the risks of not having a guarantee of achieving returns on investment for subscribers who keep their units only without selling them.
9	The risk of increasing the ratio of management fees to fund income	The fund pays 0.35% of the fund's net asset value as management fees at the same time that the fund's rental income is fixed for a long period of time. It is expected that the value of the fund's assets will change from time to time, which may lead to a decrease or increase in the management fees paid to the fund manager. In the event of an increase, the percentage of management fees will increase as a percentage of the annual fixed income, which may adversely affect the periodic returns of the fund units.	✓		
10	Risks of fundamental value reversal	The quoted market price of the units may not reflect the value of the fund's underlying investments. The money markets may be exposed to large fluctuations in prices and the volume of transactions from time to		✓	

Number	Type of risk	Risk Description	Applies	do not apply	Risk evaluation mechanism
		time, and this matter, in addition to economic, political and other conditions, leads to a negative impact on the value and price of trading units. As a closed public real estate fund, the price of a single unit may be affected by a number of factors, many of which are outside the control of the fund and some of them are related to the fund and its operations, some of which affect real estate investment or stock markets in general.			
11	Risks of valuing the fund's net assets	The value of the fund's net assets is determined at least once every six months. However, the value of the fund's primary investments may change in the period between valuations. Therefore, the market price of the units can be determined based on historical information that may not reflect the current value of the fund's underlying investments. Moreover, the fees payable to the fund manager are only modified from one evaluation to another. Thus, the owner of the units is not aware of the value of the fund's assets updated during this period, and he may dispose of the units of the fund in a manner that may negatively affect his returns on the value of his investment.	✓		In the event that there is any clear discrepancy, the fund manager will inform the unit holders immediately, and the fund manager studies and carefully selects the asset valuation companies that meet all the requirements of the executive authorities so as not to harm the value of the assets by giving an unfair value to the assets managed.
12	Risks of constraints related to raising funds for future acquisitions	Distribution requirements and financing restrictions under the directives of REITs may limit the fund's flexibility and ability to grow through acquisitions. The fund intends to distribute at least 90% of its net profits to the unitholders, with the exception of profits resulting from the sale of basic real estate assets and other investments, which may be reinvested in additional assets or the maintenance and renewal of the fund's existing assets. In addition, in order to maintain the fund's status as a traded real estate investment fund, the financing ratios of the fund must not exceed 50% of the fund's total assets value. As a result, the fund has a limited ability to improve its assets or achieve growth through the acquisition of additional assets, and thus may affect the profitability of the fund, knowing that the fund can increase its capital by offering priority rights in line with the Capital Market Authority regulations and the Companies Law. Relationship.	✓		In the event that the fund manager wishes to make future acquisitions, the fund will increase its capital by offering priority rights in line with the Authority's regulations. Or the use of other options that are compatible with the terms and regulations of the REIT funds
13	Legal restrictions	The fund's investments must be made in accordance with the rules of Islamic Sharia as determined by the Sharia Board. These controls apply to the investment structure and to some extent the fund's activities and the diversification of its investments. In order to adhere to these controls, the fund may be forced to abandon the investment or part of it, or part of its income if the investment or investment structure is in violation of the Islamic Sharia regulations. In addition, when adhering to the Sharia controls, the fund may lose investment opportunities if the Shariah Board decides the existence of any proposed investment that is not committed to the Islamic Sharia regulations and therefore the fund cannot consider it. These factors may, under certain circumstances, have a negative impact on the financial performance of the fund or its investments, compared to the results that would be obtained if the Sharia investment controls of the fund were not applied.	✓		The fund is subject to the supervision of the Sharia Board. It should be noted that all the operations of the Fund are reviewed by the Sharia Board.

Number	Type of risk	Risk Description	Applies	do not apply	Risk evaluation mechanism
14	Risks of incorrect expectations and changes in market conditions	The future performance of the Fund depends largely on changes in the levels of supply and demand in the related real estate sector, which may be affected by regional and local economic and political conditions, increased competition that results in lower real estate values, the possibility of limited availability of housing loans or an increase in mortgage rates, and changes in supply levels and demand. Therefore, incorrect expectations used by a fund manager for the purposes of making an investment decision can have a negative impact on the fund.		✓	
15	Not to participate in the administration	With the exception of what is mentioned in the terms and conditions, investors have no right or power to participate in managing the fund or influence any of the fund's investment decisions. All management responsibilities are assigned to the fund manager. As these decisions affect the activities of the fund and thus the unit owners.		✓	
16	Relying on senior staff	The success of the fund depends mainly on the success of its management team. The loss of the services of any member of the fund management team in general (whether due to resignation or otherwise) or the inability to attract and appoint additional employees may affect the fund's work and its system. The lack of a successful team to manage the fund may negatively affect the ability to develop real estate and fund assets And the ability to negotiate because of the interest of the fund, which may be reflected in the returns of the fund and the value of its .investment units	✓		The company sets policies and procedures followed, which stipulate that the team is trained to carry out the duties of the fund manager to the fullest, in addition to having a qualified alternative team to manage the fund. An alternative plan in anticipation of any emergency.
17	Nature of investment risks	Investing in the fund requires commitment as indicated in the terms and conditions, with no guarantees to achieve returns on the invested capital. There will be no guarantee that the fund will be able to achieve positive returns on its investments in a timely manner or at any time at all (other than what was mentioned in this draft of a binding donation of the difference in distributions in the event of a reduction from the target). There may be no possibility to sell or dispose of its assets, and if it is decided to dispose of it by sale, there may be no possibility to sell it at a price that the fund manager believes represents its fair value or that it be sold within the time frame requested by the fund. Based on the foregoing, the fund may never be able to achieve any return on its assets.	✓		The fund manager does not provide guarantees, except for those mentioned in the terms and conditions.
18	Risks of potential conflicts of interest	The fund is subject to different situations of conflict of interest because the fund manager and its subsidiaries, their respective managers, managers and associates may be involved in real estate activities and other commercial activities, directly or indirectly. In this regard, the fund may from time to time deal with persons, companies, institutions or companies that are associated with the subsidiary companies of the fund	✓		In the event of a conflict of interest, the portfolio manager will inform the fund's board of directors of the potential for a conflict of interest, and then the board of directors will take the necessary decisions to prevent the

Number	Type of risk	Risk Description	Applies	do not apply	Risk evaluation mechanism
		manager to facilitate investment opportunities. It does not require the bodies to whom the fund's board of directors has delegated specific responsibilities (including the fund manager) to devote all of their resources to the fund. In the event that any of the aforementioned bodies dedicate its responsibilities or resources to the benefit of others, this may limit its ability to devote its resources and responsibilities to the benefit of the fund, which may affect the Fund's ability to achieve its objectives in terms of growth in returns and the ability to achieve a better market value for units.			occurrence of conflicts that could harm investors.
19	Risks of unequal access to information	The fund will issue 28.5% of its units to property owners in exchange for their in-kind contribution to the fund's capital. This group also represents the real owners of the selling companies and property management companies and thus risks arise about the group of real estate owners or real estate managers obtaining essential information which the fund manager may not be aware of or may not realize that it is material. In addition, they may have the ability to interpret the information in due course, other investors may not have the capacity to do so.		✓	
20	Risks of investing outside the Kingdom	International investment - outside the Kingdom - involves many risks such as the currency exchange rate, political and economic fluctuations, high costs to the investor and information security risks. The fund manager will seek to enter into investments related to regulatory, supervisory and supervisory requirements at least similar to those applied by the Kingdom of Saudi Arabia. However, in the event that any of the above occurs, this may affect the fund's profits and / or the valuation of its assets, which may negatively affect the price of its units.	✓		The fund invested outside the Kingdom of Saudi Arabia, and it should be noted that the contract for the fund's assets outside the Kingdom was concluded with only one tenant, as the contract obliges the tenant to pay the rents for the property, which reduces the aforementioned risks.
21	Currency exchange rate risk	The fund's main currency is the Saudi riyal, but the fund may acquire real estate, enter into investments, or pay any fees or costs in a currency other than the Saudi riyal. Consequently, any change in the exchange rate of these currencies may increase the costs incurred by the fund, which may negatively affect the fund's unit price. Also, unit holders for whom the Saudi riyal is not the base currency are exposed to exchange rate fluctuations.	✓		There is no currency exchange rate risk due to the fund investing in the United Arab Emirates, where the risk of currency exchange rates decreases due to the convergence of the local currency exchange rate with the UAE Dirham.
22	Technical risks	The fund manager relies on the use of technology in managing the fund, but its information systems may be exposed to hacks, viruses, or partial or complete disruption, which limits the fund manager's ability to effectively manage the fund's investments, which may negatively affect the fund's performance and consequently the unit holders of the fund.	✓		The fund manager follows policies and procedures related to information security systems so that any attempt to penetrate and prevent viruses is detected early, in addition to the policies and procedures of the business continuity plan.

Number	Type of risk	Risk Description	Applies	do not apply	Risk evaluation mechanism
23	The risk of default of the fund manager	Whereas, the fund manager is obligated by his pure will, in the event that the fund's return is less than 5%, to donate to pay no more than a return of 2% of the MEFIC's own assets for the investor unit holders by offering, for the unsold units since the beginning of the offering. Consequently, in the event of default, the fund manager will not be able to make the obligatory donation of the difference in return if it falls below the target. This includes the fund manager's failure to fulfill its obligations for one year or more than one year, as well as the risk of bankruptcy of the fund manager. There is also a risk that the fund will be terminated prematurely, and thus investors will not enjoy the privilege of donating the differences in return.	✓		The fund manager has sufficient financial solvency to enable him to fulfill his obligations towards the fund's clients.

End of the Report …

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

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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:

Revenue recognition	
Key audit matter	***How the matter was addressed in our audit***
Revenue comprise of rental income from investments properties. Revenue recognition is considered a key audit matter as the timing and amount of revenue recognized in a financial period can have a material effect on the financial performance.	Our procedures included: • Review of revenue recognition accounting policy. • Substantive tests of transactions on a sample basis. • Testing revenue cut-off at the period end and an analytical review of revenue.
Refer to note (5g) for accounting policy.	

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Key audit matters (Continued)

Valuation of investment properties	
Key audit matter	***How the matter was addressed in our audit***
Investments properties comprise a portfolio of five investment properties and 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 valuators to perform a formal valuation of the Fund's investments properties as at the reporting date. We considered this as a key audit matter given the significance of the valuation on the financial statements.	Our procedures included • Ensuring initial recognition and subsequent measurement of investment properties as per IFRS. • Performing impairment test to assess recoverable amounts of investment properties and determining impairment charge if any. • An assessment of the appropriateness of the valuation technique used to value the investments.
Refer to note (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.

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Auditor's responsibilities for the audit of the financial statement

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

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

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

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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

د. محمد العمري وشركاه - محاسبون قانونيون
س. ت: ١٠١٠٤٣٣٩٨٢
Riyadh
Certified Public Accountants
Dr. Mohamed Al-Amri & Co.

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	31 December 2020	31 December 2019
ASSETS			
Investment properties	6	**918,847,029**	962,611,573
Intangible assets - right of benefit	7	**128,553,200**	219,697,453
Right-of-use assets	8	**80,641,904**	117,709,869
Accounts receivable	9	**31,237,558**	47,911,512
Prepaid expenses and other receivables	10	**6,513,560**	1,814,280
Cash and cash equivalents	11	**5,305,593**	2,288,484
Total assets		**1,171,098,844**	1,352,033,171
LIABILITIES			
Long term loans	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
Contract liabilities	15	**5,821,308**	27,660,018
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	**2,495,715**	2,828,901
Total liabilities		**501,408,979**	597,779,842
Net assets attributable to Unitholders		**669,689,865**	754,253,329
Units in issue – numbers		**73,276,800**	73,276,800
Net assets value - per unit		**9.1392**	10.2932
Contingences and commitments	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
INCOME			
Rental income		**65,874,499**	95,753,865
Total income		**65,874,499**	95,753,865
EXPENSES			
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)
Total expenses		**(66,937,289)**	(63,641,433)
Operating (loss) / profit		**(1,062,790)**	32,112,432
Other non-operating income / losses			
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
(Loss) / profit for the year		**(66,244,264)**	27,979,887
Other comprehensive income		**-**	-
Total comprehensive (loss) / income		**(66,244,264)**	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)

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

UNIT TRANSACTIONS

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

	2020	2019
	Units	
Units at 1 January / 31 December	**73,276,800**	73,276,800

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

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

1. THE FUND AND ITS ACTIVITIES

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

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

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

A 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.

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.

Standards	Title	Effective date
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.

(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:

Standards	Title	Effective date
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

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.

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.

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.

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.

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.

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6. INVESTMENT PROPERTIES

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

31 December 2020

	Cost					
Properties	**Land**	**Building**	**Total**	**Accumulated depreciation**	**Impairment**	**Net book value**
Drnef Ajyad	**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**
	731,078,621	**237,540,936**	**968,619,557**	**(12,221,699)**	**(37,550,829)**	**918,847,029**

31 December 2019

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

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 valuators' 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 Ajyad	**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**
	918,847,029	**934,862,350**	**915,259,140**

31 December 2019

	Book value	**Valuer 1**	**Valuer 2**
Drnef Ajyad	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
	962,611,573	978,733,703	960,989,035

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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

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

31 December 2019

	Cost	Accumulated amortization	Net book value
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
	243,410,000	(23,712,547)	219,697,453

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

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

31 December 2019

	Book value	Valuer 1	Valuer 2
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
	219,697,453	242,237,740	244,585,628

(a) Refer note 13

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8. RIGHT-OF-USE ASSETS

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

9. ACCOUNTS RECEIVABLE

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

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

* 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:

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

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.

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ACCOUNTS RECEIVABLE (continued)

31 December 2020	Accounts receivable – Months past due			
	0-6 Months	**6–12 Months**	**More than 12 months**	**Total**
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	**13,618,054**	**10,099,337**	**7,520,166**	**31,237,558**

31 December 2019	Accounts receivable – Months past due			
	0-6 Months	**6–12 Months**	**More than 12 months**	**Total**
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	6,156,420	14,379,007	27,376,085	47,911,512

10. PREPAID EXPENSES AND OTHER RECEIVABLES

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

11. CASH AND CASH EQUIVALENTS

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

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.

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13. ACCOUNTS PAYABLE

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

* During the year, Fahad Ibrahim Saad Almoussa, a master tenant for the investment properties Drnef Ajyad 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:

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

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14. LEASE LIABILITIES

	31 December 2020	31 December 2019
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)
Balance as at 31 December	**92,415,256**	121,253,695

15. CONTRACT LIABLITIES

	31 December 2020	31 December 2019
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)**	-
Balance at the end of the year	**5,821,308**	27,660,018

Contract liabilities represent advances received from customers.

16. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 December 2020	31 December 2019
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**	-
	3,523,548	3,084,978

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17. OPERATING EXPENSES

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

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20. OTHER INCOME, NET

	2020	2019
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**	**-**
	280,431	2,144,707

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:

Related Party	Nature of transaction	Notes	2020	2019
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.

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TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

Related party balances as the reporting date were as follows:

Related Party	Balance due to	As at 31 December 2020	As at 31 December 2019
Middle East Financial Investment Company (the "Fund Manager")	Transaction fee payable	**2,630,666**	11,946,885
	Management fee payable	**1,098,008**	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	**20,200,000**	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	**10,000,000**	10,000,000
Dividend payable to Al-Rukn Al-Mateen (Unitholder of Al-Qannas Fund)	Unpaid principal	**1,100,000**	1,100,000
Middle East Financial Investment Company Fund 2 (Fund managed by the Fund Manager))	Units related to a fund managed by the Fund Manager	**-**	4,186,387

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.

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FINANCIAL RISK MANAGEMENT (continued)

Concentration of credit risk

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

Liquidity risk

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

	Carrying amount	On demand or less than six months	Six to Twelve months	Over one year
Financial liabilities at amortized cost				
Long term loans	**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**	**-**	**-**
As at 31 December 2020	**399,648,867**	**60,915,971**	**8,489,590**	**415,139,204**

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

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.

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FINANCIAL RISK MANAGEMENT (continued)

Currency risk

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

Price risk

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

Categories of financial assets and financial liabilities

	Notes	31 December 2020	31 December 2019
Financial assets at amortized cost			
Accounts receivable	9	**31,237,558**	47,911,512
Cash and cash equivalents	11	**5,305,593**	2,288,484
		36,543,151	50,199,996
Financial liabilities at amortized cost:			
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	**2,495,715**	2,429,077
		495,587,671	569,720,000

(Saudi Riyals)

24. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 December 2020	Within 12 months SR	After 12 months SR	Total SR
ASSETS			
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**
TOTAL ASSETS	**43,056,711**	**1,128,042,133**	**1,171,098,844**
LIABILITIES			
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**
TOTAL LIABILITIES	**67,019,487**	**434,389,492**	**501,408,979**

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.

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

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.

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.