

MALAZ CAPITAL COMPANY
(A CLOSED JOINT STOCK COMPANY)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
together with the
INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

To: **The Shareholders of Malaz Capital Company**
Riyadh, Kingdom of Saudi Arabia

We have audited the accompanying financial statements of **Malaz Capital Company** (the "Company") which comprise the balance sheet as at 31 December 2016 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes (1) through (24) which form an integral part of the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Regulations for Companies and the Company's By-laws, 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. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors' responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion



Opinion

In our opinion, the financial statements taken as a whole:

- 1) present fairly, in all material respects, the financial position of the **Malaz Capital Company** (the "Company") as at 31 December 2016, and of its results of operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and
- 2) comply with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of the financial statements.

**For KPMG Al Fozan & Partners
Certified Public Accountants**


Khalil Ibrahim Al Sedais
License No: 371



Riyadh on 20 Jumada'II 1438H
Corresponding to: 19 March 2017

Malaz Capital Company
(A Closed Joint Stock Company)
Balance Sheet
For the year ended 31 December 2016
(Amount in Saudi Riyals)

| <u>ASSETS</u> | <u>Note</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------------|-------------------|
| Current assets | | | |
| Cash and cash equivalents | 4 | 12,543,701 | 26,890,166 |
| Short-term deposits | 5 | 16,000,000 | -- |
| Accounts receivables | | 120,330 | 384,309 |
| Prepayments and other current assets | 7 | 2,061,803 | 1,125,457 |
| Total current assets | | <u>30,725,834</u> | <u>28,399,932</u> |
| Non-current assets | | | |
| Available-for-sale investments | 8 | 15,249,589 | 14,372,749 |
| Loan to an equity-accounted investee | 9 | 1,954,162 | 2,499,611 |
| Property and equipment, net | 10 | 2,025,662 | 2,090,947 |
| Total non-current assets | | <u>19,229,413</u> | <u>18,963,307</u> |
| Total assets | | <u>49,955,247</u> | <u>47,363,239</u> |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | | |
| Current liabilities | | | |
| Provision against losses of an equity-accounted investee | 11 | 1,386,975 | 4,540,966 |
| Accrued expenses and other current liabilities | 12 | 7,723,424 | 4,816,368 |
| Deferred revenue | 13 | 1,956,644 | 1,969,706 |
| Provision for zakat | 14 | 796,706 | 1,268,646 |
| Total current liabilities | | <u>11,863,749</u> | <u>12,595,686</u> |
| Non-current liabilities | | | |
| Employees' end-of-service benefits | | 1,869,638 | 1,751,412 |
| Total liabilities | | <u>13,733,387</u> | <u>14,347,098</u> |
| Shareholders' equity | | | |
| Share capital | 1 | 60,000,000 | 60,000,000 |
| Statutory reserve | 15 | 501,739 | 349,161 |
| Unrealized gain / (loss) on available-for-sale investments | 8 | 428,236 | (1,251,702) |
| Accumulated losses | | (24,708,115) | (26,081,318) |
| Total shareholders' equity | | <u>36,221,860</u> | <u>33,016,141</u> |
| Total liabilities and shareholders' equity | | <u>49,955,247</u> | <u>47,363,239</u> |

The accompanying notes from 1 to 24 form an integral part of these financial statements

Malaz Capital Company
(A Closed Joint Stock Company)
Statement of Income
For the year ended 31 December 2016
(Amount in Saudi Riyals)

| | <i>Note</i> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------------|---------------------|
| Management and performance fee | 17 | 48,369,229 | 18,277,438 |
| Custody and administration fee | | 1,602,682 | 1,582,620 |
| Arrangement and processing fee | | 120,000 | 1,049,896 |
| Advisory and support fee | | 75,000 | 267,213 |
| | | <u>50,166,911</u> | <u>21,177,167</u> |
| General and administrative expenses | 18 | (48,695,911) | (21,421,179) |
| Share of income / (loss) in equity-accounted investee | 11 | 3,153,991 | (77,921) |
| Operating income / (loss) | | 4,624,991 | (321,933) |
| Impairment loss on financial assets | 19 | (3,365,244) | (13,992,919) |
| Special commission income | | 361,101 | 30,592 |
| Dividend income | | 551,176 | 641,248 |
| Other income | | -- | 47,760 |
| Net income / (loss) before zakat | | <u>2,172,024</u> | <u>(13,595,252)</u> |
| Zakat charge | 14 | <u>(646,243)</u> | <u>(1,110,763)</u> |
| Net income / (loss) for the year | | <u>1,525,781</u> | <u>(14,706,015)</u> |
| Earnings / (loss) per share: | 20 | | |
| Operating income / (loss) | | <u>0.77</u> | <u>(0.05)</u> |
| Net income / (loss) for the year | | <u>0.25</u> | <u>(2.45)</u> |

The accompanying notes from 1 to 24 form an integral part of these financial statements

Malaz Capital Company
(A Closed Joint Stock Company)
Statement of Cash Flows
For the year ended 31 December 2016
(Amount in Saudi Riyals)

| | <u>Note</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|--------------------------|--------------------------|
| Cash flows from operating activities | | | |
| Net income / (loss) for the year | | 1,525,781 | (14,706,015) |
| <i>Adjustments to reconcile net income / (loss) to net cash generated from operating activity:</i> | | | |
| Impairment loss on financial assets | 19 | 3,365,244 | 13,992,919 |
| Zakat | 14 | 646,243 | 1,110,763 |
| Depreciation | 10 | 721,573 | 873,315 |
| Employees-end-of-service benefits | | 502,707 | 590,274 |
| Share of income / (loss) of an equity-accounted investee | 11 | (3,153,991) | 77,921 |
| Loss on disposal of property and equipment | | 362 | -- |
| | | <u>3,607,919</u> | <u>1,939,177</u> |
| <i>Changes in operating assets and liabilities</i> | | | |
| Accounts receivables | | 263,979 | (384,309) |
| Due from a related party | | -- | (120,000) |
| Prepaid expenses and other assets | | (1,123,654) | 27,613 |
| Accrued expenses and other liabilities | | 2,907,056 | 1,956,513 |
| Deferred revenue | | (13,062) | (54,151) |
| Employees' end-of-service benefits paid | | (384,481) | (15,278) |
| Zakat paid during the year | 14 | (1,118,183) | (665,276) |
| Net cash generated from operation activities | | <u>4,139,574</u> | <u>2,684,289</u> |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | | (656,650) | (164,215) |
| Short-term deposits | | (16,000,000) | -- |
| Loan to an equity-accounted investee | | (1,954,162) | (124,773) |
| Repayment of loan from an equity-accounted investee | | 124,773 | -- |
| Net cash used in investing activities | | <u>(18,486,039)</u> | <u>(288,988)</u> |
| Net (decrease) / increase in cash and cash equivalents | | <u>(14,346,465)</u> | 2,395,301 |
| Cash and cash equivalents at beginning of the year | | <u>26,890,166</u> | 24,494,865 |
| Cash and cash equivalents at end of the year | 4 | <u><u>12,543,701</u></u> | <u><u>26,890,166</u></u> |
| Supplement non-cash information: | | | |
| Unrealized gain on available-for-sale investments | 8 | <u>1,679,938</u> | <u>1,526,651</u> |

The accompanying notes from 1 to 24 form an integral part of these financial statements

Malaz Capital Company
(A Closed Joint Stock Company)
Statement of Changes in Shareholders' Equity
For the year ended 31 December 2016
(Amount in Saudi Riyals)

| <u>Note</u> | <u>Share capital</u> | <u>Statutory reserve</u> | <u>Unrealized gain/ (loss) on available-for-sale investments</u> | <u>Accumulated losses</u> | <u>Total</u> |
|--|----------------------|--------------------------|--|---------------------------|-------------------|
| Balance as at 1 January 2015 | 60,000,000 | 349,161 | (2,778,353) | (11,375,303) | 46,195,505 |
| Net change in fair value of available-for-sale investments | -- | -- | 1,526,651 | -- | 1,526,651 |
| Net loss for the year | -- | -- | -- | (14,706,015) | (14,706,015) |
| Balance as at 31 December 2015 | 60,000,000 | 349,161 | (1,251,702) | (26,081,318) | 33,016,141 |
| Net change in fair value of available-for-sale investments | 8 | -- | 1,679,938 | -- | 1,679,938 |
| Net income for the year | -- | -- | -- | 1,525,781 | 1,525,781 |
| Transfer to statutory reserve | -- | 152,578 | -- | (152,578) | -- |
| Balance as at 31 December 2016 | 60,000,000 | 501,739 | 428,236 | (24,708,115) | 36,221,860 |

The accompanying notes from 1 to 24 form an integral part of these financial statements

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2016
(Amount in Saudi Riyals)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Malaz Capital Company (“the Company”) is a Saudi Closed Joint Stock Company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company was registered in Riyadh on 21 Rajab 1430H (corresponding to 14 July 2009) under Commercial Registration No. 1010271323.

The principal activities of the Company as per its Capital Market Authority (“CMA”) license No. 09136-36 dated 23 Rabi Al-Thani 1430 (corresponding to 19 April 2009) are to deal in financial security activities, dealing as principle, perform management activities to establish and arrange investment funds, manage portfolios, perform Advisory, Arranging and Custody services for the purposes of the administrative procedures related to the investment funds.

On 13 April 2016, the Company applied for an amendment request to CMA to approve the Company’s licenses by canceling Arranging and Advisory activities, which has been approved by CMA through its letter dated 15 June 2016.

The Company’s share capital amounting to SR 60 million at 31 December 2016 (31 December 2015: SR 60 million) consists of 6,000,000 fully paid shares (31 December 2015: 6,000,000 fully paid shares) of SR 10 each, and is distributed among the shareholders as follows:

| <u>Shareholders</u> | <u>Ownership percentage (%)</u> | <u>Number of shares</u> | <u>Share Capital (SR)</u> |
|--------------------------------------|---|-----------------------------|-------------------------------|
| Abdulaziz Bin Abdullatif Bakr Jazzar | 33.33 | 2,000,000 | 20,000,000 |
| Ahmad Bin Mohamad Salim Al Sari | 16.67 | 1,000,000 | 10,000,000 |
| Nazer Group Holding Company | 16.67 | 1,000,000 | 10,000,000 |
| Al-Najah Advanced Technology Company | 16.67 | 1,000,000 | 10,000,000 |
| Salah Rashid Abdulrahman Al Rashid | 8.33 | 500,000 | 5,000,000 |
| Sara International for Operation | 8.33 | 500,000 | 5,000,000 |
| Total | 100 | 6,000,000 | 60,000,000 |

The Company has shareholding in certain special purpose entities (“SPEs”), primarily for the purpose of holding the legal title of investments which are beneficially owned by the mutual funds managed by the Company. These entities are not consolidated to the Company’s financial statements as the Company does not have power over these entities, nor it is exposed or has a right to variable returns from its involvement with these entities and does not have the ability to affect those returns through its power over these entities. These SPEs incorporated in Kingdom of Saudi Arabia:

- Second Malaz commercial Company;
- Third Malaz commercial Company;
- Malaz Sara commercial Company; and
- Salwa Malaz commercial Company

2. BASIS OF PREPARATION

(a) Statement of compliance

These accompanying financial statements have been prepared in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (“SOCPA”).

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2016
(Amount in Saudi Riyals)

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

The new Regulation for Companies issued through Royal Decree M/3 on 11 November 2015 (hereinafter referred as "The Law") came into force on 25/07/1437H (corresponding to 2 May 2016). The Company has to amend its By-laws for any changes to align the By-laws to the provisions of The Law. Consequently, the Company has amended its By-laws to the stockholders in their Extraordinary General Assembly meeting on 1/06/1438H (corresponding to 28 February 2017) for their ratification. The full compliance with The Law is expected not later than 24/07/1438H (corresponding to 21 April 2017).

(b) Basis of measurement

The accompanying financial statements have been prepared on historical cost basis, except for available-for-sale investments, which are carried at fair value; using the accrual basis of accounting and the going concern concept.

(c) Functional and presentation currency

These financial statements are presented in Saudi Riyal (SR), which is the functional and reporting currency of the Company.

(d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognized in the financial statements are as follows:

Impairment of available-for-sale investments:

The management exercises judgment to calculate the impairment loss of available-for-sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes an other than temporary decline in the value of investments. In case of equity instruments, any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for such impairment. The determination of what is 'significant' and 'prolonged' requires management's judgment. The management also considers impairment testing to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Impairment of account receivables:

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the agreement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators of objective evidence that the trade receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2016
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

(a) Revenue recognition

- Fees charged for managing assets are recognized as revenue as the services are provided.
- Advisory service fees are recognized as the services are rendered.
- Dividends from investments are recognized when right to received dividend is established.
- Custody fee is recognized when the services are provided.

(b) Accounts receivables

These are stated at original invoice amount less provisions made for amounts which in the opinion of the management may not be recovered. Bad debts are written off when identified, against its related provisions.

(c) Available-for-sale investments

Available-for-sale investments consist quoted and unquoted equity investments including mutual fund investments, which are not held for trading purposes and where the Company does not have any significant influence or control. These are initially recognized and subsequently re-measured at fair value. Any changes in fair value are recognized in equity as fair value reserve until the investment is disposed. Any significant and prolonged decline in value of the available-for-sales investments, if any, is charged to the statement of income. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date

(d) Equity-accounted investee

Equity-accounted investees are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Equity-accounted investees are accounted for using the equity method (equity-accounted investee) and are initially recognized at cost. The financial statements include the Company's share of income and expenses and equity movement of the equity-accounted investees from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an equity-accounted investee, the Company's carrying amount is reduced to nil and recognition of further losses is accounted for as a liability to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an equity-accounted investee. The Company's share of profits or losses of the investee companies is credited or charged to the statement of income.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks in current accounts and other short-term highly liquid investments with original maturities of three month or less, if any, which are available to the Company without any restrictions.

(f) Short-term deposits

Short term deposits include placements with banks and other short-term highly liquid investments with original maturities of more than three months and less than one year from the placement date.

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2016
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property and equipment

Property and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is 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 property, plant and equipment. All other expenditure is recognized in the income statement when incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of individual item of property, plant and equipment. The estimated useful lives of assets will be depreciated as follows:

| | Years |
|--------------------------------|--|
| Lease hold improvement | Shorter of lease term or economic life |
| Furniture and office equipment | 4 |
| Computers and software | 3 |
| Mobiles | 3 |
| Vehicles | 4 |

(h) Provisions

A provision is recognized if, as a result of past events, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefit, will be required to settle the obligation.

(l) Operating lease

Payment under operating lease is recognized in the statement of income on a straight-line basis over the term of the lease.

(m) Zakat

The Company is subject to zakat in accordance with the regulations of General Authority of Zakat and Income Tax ("GAZT"). Zakat is accrued and charged to income currently. Additional zakat liability, if any, related to prior years' assessments arising from GAZT are accounted for in the period in which the final assessments are finalized.

4. CASH AND CASH EQUIVALENTS

| | <u>2016</u> | <u>2015</u> |
|----------------------------------|-------------------|-------------------|
| Cash in hand | 20,250 | 18,500 |
| Cash at banks – current accounts | 6,523,451 | 26,871,666 |
| Short-term deposit (4.1) | 6,000,000 | -- |
| | <u>12,543,701</u> | <u>26,890,166</u> |

- 4.1** This represents short-term deposit placed with a local bank with an original maturity of less than 3 months and has an average special commission rate of 3.1% per annum.

5. SHORT-TERM DEPOSITS

Short-term deposits represent time deposits placed with local banks with original maturity of more than 3 months but less than one year and has an average special commission rate of 3.1% per annum.

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2016
(Amount in Saudi Riyals)

6. RELATED PARTY TRANSACTION AND BALANCES

Related parties of the Company include the funds under management, the Company's shareholders and their relatives up to the fourth degree, its equity-accounted investee and affiliated companies and directors and key management personnel. Terms and conditions of these transactions are approved by the Company's management.

Significant related parties transactions for the years ended 31 December and balances arising therefrom at 31 December are described as under:

| <u>Name</u> | <u>Relationship</u> | <u>Nature of transactions</u> | <u>Amount of transactions</u> | | <u>Closing balance</u> | |
|---|------------------------|--|-------------------------------|-------------|------------------------|------------------|
| | | | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| <u>Loan to an equity-accounted investee</u> | | | | | | |
| Initiative Information Communication and Technology | The Associate | Loan | 1,954,162 | 124,773 | 4,329,000 | 6,112,052 |
| | | Impairment of loan (note 19) | (2,374,838) | (3,612,441) | (2,374,838) | (3,612,441) |
| | | | | | <u>1,954,162</u> | <u>2,499,611</u> |
| <u>Due from related parties</u> | | | | | | |
| Initiative Information Communication and Technology | The Associate | Expenses paid | -- | 120,000 | 5,953,667 | 5,953,667 |
| | | Impairment loss (note 19) | -- | (5,953,667) | (5,953,667) | (5,953,667) |
| IT Security Trading Company | Affiliate | Professional services | 41,400 | 232,125 | -- | -- |
| Mutual funds under management | Funds Under Management | Administration and custody fee | 1,000,000 | 1,400,000 | -- | -- |
| | | Arrangement and support fee | 717,000 | 1,646,898 | -- | -- |
| | | | | | <u>--</u> | <u>--</u> |
| <u>Due to related parties</u> | | | | | | |
| Bupa Arabian for Cooperative Insurance Company | Affiliate | Medical Insurance | 416,229 | 343,620 | -- | -- |
| Emcan Business Technologies and Communication s Company | Affiliate | IT Services | -- | 2,400 | -- | -- |
| Board of Directors | Board members | Board remuneration | 107,986 | 528,921 | -- | -- |
| | | | | | <u>--</u> | <u>--</u> |
| <u>Deferred revenue</u> | | | | | | |
| Mutual funds under management | Funds under Management | Management fee and performance fee (note 13) | 48,369,229 | 18,277,438 | 1,956,643 | 1,969,706 |

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2016
(Amount in Saudi Riyals)

7. PREPAYMENTS AND OTHER CURRENT ASSETS

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|------------------|------------------|
| Reimbursable expenses (19) | 1,244,951 | 561,923 |
| Prepaid rent | 310,683 | 310,683 |
| Refundable deposit | 148,059 | 148,059 |
| Accrued special commission income | 222,663 | -- |
| Others | 135,447 | 104,792 |
| | <u>2,061,803</u> | <u>1,125,457</u> |

8. AVAILABLE-FOR-SALE INVESTMENTS

This represents investment in equity shares of Saudi listed companies. The movement of cost and fair value adjustment for the years ended 31 December is as follows:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|--------------------|
| Cost: | | |
| Balance at beginning of the year | 15,624,451 | 20,051,262 |
| Impairment loss | (803,098) | (4,426,811) |
| Balance at end of the year | <u>14,821,353</u> | <u>15,624,451</u> |
| Unrealized (loss) / gain on fair value adjustment | | |
| Balance at beginning of the year | (1,251,702) | (2,778,353) |
| Unrealized gain during the year, net | 1,679,938 | 1,526,651 |
| Balance at end of the year | <u>428,236</u> | <u>(1,251,702)</u> |
| Fair value at end of the year | <u>15,249,589</u> | <u>14,372,749</u> |

9. LOAN TO AN EQUITY-ACCOUNTED INVESTEE

The movement of loan to an equity-accounted investee for the years ended 31 December is as follows:

| | <u>2016</u> | <u>2015</u> |
|----------------------------------|------------------|------------------|
| Balance at beginning of the year | 2,499,611 | 5,987,279 |
| Additions | 1,954,162 | 124,773 |
| Repayment | (124,773) | -- |
| Impairment loss | (2,374,838) | (3,612,441) |
| Balance at end of the year | <u>1,954,162</u> | <u>2,499,611</u> |

During the year ended 31 December 2016, the Company has provided an additional interest free financing to Initiative Information Communication and Technology Ventures ("the Associate") for the purpose of financing their equity-accounted investee operations.

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2016
(Amount in Saudi Riyals)

10. PROPERTY AND EQUIPMENT, NET

| | Leasehold improvement | Office Furniture | Computers and software | Vehicles | Mobile | Total |
|--------------------------------------|--------------------------|---------------------|------------------------------|----------------|---------------|------------------|
| Cost: | | | | | | |
| 1 January 2016 | 2,100,578 | 640,020 | 1,642,516 | 117,150 | 55,680 | 4,555,944 |
| Additions | 11,442 | 34,060 | 611,148 | -- | -- | 656,650 |
| Disposals | -- | -- | -- | -- | (3,199) | (3,199) |
| 31 December 2016 | 2,112,020 | 674,080 | 2,253,664 | 117,150 | 52,481 | 5,209,395 |
| Accumulated depreciation: | | | | | | |
| 1 January 2016 | 610,888 | 266,966 | 1,457,118 | 88,631 | 41,394 | 2,464,997 |
| Charge for the year | 420,151 | 157,279 | 126,585 | 7,875 | 9,683 | 721,573 |
| Disposals | -- | -- | -- | -- | (2,837) | (2,837) |
| 31 December 2016 | 1,031,039 | 424,245 | 1,583,703 | 96,506 | 48,240 | 3,183,733 |
| Net book value: | | | | | | |
| 31 December 2016 | 1,080,981 | 249,834 | 669,961 | 20,644 | 4,241 | 2,025,662 |
| 31 December 2015 | 1,489,690 | 373,054 | 185,398 | 28,519 | 14,286 | 2,090,947 |

11. PROVISION AGAINST LOSSES OF AN EQUITY-ACCOUNTED INVESTEE

The movement in provision against losses of an equity-accounted investee for the years ended 31 December is as follows:

| | <u>2016</u> | <u>2015</u> |
|----------------------------------|--------------------|--------------------|
| Balance at beginning of the year | (4,540,966) | (4,463,045) |
| Share of income / (loss) | 3,153,991 | (77,921) |
| Balance at end of the year | <u>(1,386,975)</u> | <u>(4,540,966)</u> |

The Company holds 6.9% of share capital in the Associate. The cost of Company's investment in the Associate was SR 300,000, however, due to continuous recognition of Company's share in the Associate losses over the years, the carrying value of investment reached to SR Nil (31 December 2015: SR Nil).

By virtue of letter of support issued by the Company, the Company, along with other shareholders of the Associate, has committed to provide financial support to the Associate when required. Accordingly equivalent provision to the extent of the Company's share of the Associate losses till 31 December has been made in these financial statements.

The share of income from Associate includes SR 3.56 million represent income from waiver of shareholders loan amounting to SR 52 million payable to them. The Associate accounted for the above waived amount as a direct contribution from its shareholder and adjusted its accumulated losses accordingly.

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12. ACCRUED EXPENSES AND OTHER LIABILITIES

| | <u>2016</u> | <u>2015</u> |
|-----------------------------|------------------|------------------|
| Accrued employees' expenses | 2,458,402 | 2,651,872 |
| Consultation fee | 711,196 | 1,744,683 |
| Professional fee | 1,049,063 | 249,000 |
| Management fee rebate | 2,652,089 | -- |
| Others | 852,674 | 170,813 |
| | <u>7,723,424</u> | <u>4,816,368</u> |

13. DEFERRED REVENUE

| | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|
| Management fee received in advance (13.1) | 1,956,644 | 1,969,706 |
| | <u>1,956,644</u> | <u>1,969,706</u> |

13.1 This represents management fee received in advance from Malaz Real Estate Opportunities Fund I ("MREOF I"), a fund managed by the Company.

14. PROVISION FOR ZAKAT

14.1 Movement of the Company's Zakat provision for the years ended 31 December is as follows:

| | <u>2016</u> | <u>2015</u> |
|---|----------------|------------------|
| Balance at beginning of the year | 1,268,646 | 823,159 |
| Payment made during the year | (1,118,183) | (665,276) |
| | 150,463 | 157,883 |
| Charge for the year – current year | 646,243 | 749,030 |
| – reversal of prior year's excess accrual | -- | (157,883) |
| – prior years (14.3) | -- | 519,616 |
| | 646,243 | 1,110,763 |
| Balance at end of the year | <u>796,706</u> | <u>1,268,646</u> |

14.2 The significant components of the Company's Zakat base for the years ended 31 December comprise of the following:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|-------------------|-------------------|
| Adjusted shareholders' equity | 36,019,255 | 49,801,115 |
| Adjusted net income | 4,590,634 | (3,376,230) |
| <i>Less:</i> | | |
| Property and equipment | (2,025,662) | (2,090,947) |
| Other investments | (15,249,589) | (14,372,749) |
| Zakat base | <u>23,334,638</u> | <u>29,961,189</u> |

Zakat for the year is payable at 2.5% of higher of the Zakat base and adjusted net income attributable to Saudi shareholders.

14.3 The Company has filed its Zakat returns with the GAZT up to year ended 31 December 2015 and received a zakat certificate for the year 2015.

During the year 2015, the Company received the final assessments for the years from 2010 to 2013 from GAZT with additional liabilities of Zakat amounting to SR 1.9 million. The Company has filed an appeal against these assessments. Management believes that outcome of the appeal will be in favor of the Company, subject to the additional Zakat liability amounting to SR 0.5 million for which an additional provision was recorded in 2015 annual financial statements.

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15. STATUTORY RESERVE

In accordance with the Company's By-laws and the previous Saudi Arabian Regulations for Companies, the Company sets aside 10% of its net income each year as statutory reserve until such reserve equals to 50% of the share capital. The new Saudi Arabian Regulations for Companies that came into effect on 25 Rajab 1437H (corresponding to May 2, 2016) requires companies to set aside 10% of its net income each year as statutory reserve until such reserve reaches 30% of the share capital. The Company is currently in the process of amending its By-laws as described in note 2a.

This reserve is currently not available for distribution to the shareholders of the Company.

16. ASSETS HELD UNDER FIDUCIARY CAPACITY

As at 31 December 2016, the Company legally owns certain shares amounting to SR 179.325 million (31 December 2015: 179.325) on behalf of a client in a fiduciary capacity without risk or recourse to the Company. These assets are considered as off- balance sheet items and do not constitute part of the Company's assets.

17. MANAGEMENT AND PERFORMANCE FEE

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|-------------------|-------------------|
| Performance fee (<i>note 17.1</i>) | 31,250,000 | -- |
| Management fee | 17,119,229 | 18,227,438 |
| | <u>48,369,229</u> | <u>18,227,438</u> |

17.1 During the year, the Company earned a performance (exit) fee in the amount of SR 31.25 million on liquidation of Malaz Real Estate Opportunities Fund II ("MREOF II"), a fund managed by the Company in accordance with the fund's terms and condition. Such fee was calculated at 2.5% of the full value (i-e the unadjusted sale price of the underlying investments) of the exit proceeds.

18. GENERAL AND ADMINISTRATIVE EXPENSES

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Management fee and performance fee rebate (<i>18.1</i>) | 28,089,059 | -- |
| Employee related cost | 13,020,184 | 14,209,618 |
| Legal, professional and consultancy expenses | 3,458,494 | 3,263,345 |
| Rent | 1,338,840 | 1,341,840 |
| Depreciation (<i>note 10</i>) | 721,573 | 873,315 |
| Communication | 397,251 | 316,278 |
| Travelling expenses | 239,874 | 291,310 |
| Government and subscription fee | 110,736 | 163,005 |
| Board members remuneration | 632,986 | 528,921 |
| IT & Networking related expense | 98,801 | 14,363 |
| License fee | 91,667 | 102,500 |
| Cleaning expense | 72,000 | 91,121 |
| Marketing fee | 20,625 | 20,625 |
| Others | 403,821 | 204,938 |
| | <u>48,695,911</u> | <u>21,421,179</u> |

18.1 During the year, the Company has given a rebate against management fee and performance (exit) fee (note 17) to the unitholders of funds under management amounting to SR 14.69 million and 13.39 million.

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19. IMPAIRMENT LOSS ON FINANCIAL ASSETS

| | <i>Note</i> | <u>2016</u> | <u>2015</u> |
|---|-------------|------------------|-------------------|
| Impairment loss recognized on: | | | |
| Loan to an equity-accounted investee | 9 | 2,374,838 | 3,612,441 |
| Available-for-sale investments | 8 | 803,098 | 4,426,811 |
| Impairment loss against reimbursable expenses | 7 | 187,308 | -- |
| Due from a related party | 6 | -- | 5,953,667 |
| | | <u>3,365,244</u> | <u>13,992,919</u> |

20. EARNINGS / (LOSS) PER SHARE

Earnings / (loss) per share is calculated by dividing the income / (loss) from operations and net income / (loss) for the year by dividing the weighted average number of ordinary shares of 6 million (2015: 6 million shares).

21. COMMITMENT

21.1 The Company has committed to provide financial support to equity-accounted investee as and when required by the virtue of a letter of support issued by the Company along with the other shareholders of the Associate (note 11).

21.2 As at 31 December, the Company has operating lease commitment for the office building as follows:

| Years | <u>2016</u> | <u>2015</u> |
|--------------|------------------|------------------|
| 2016 | -- | 1,302,840 |
| 2017 | 1,302,840 | 1,302,840 |
| 2018 | 1,302,840 | 1,302,840 |
| 2019 | 278,415 | 278,415 |
| | <u>2,884,095</u> | <u>4,186,935</u> |

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Credit risk is the risk that one party may fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has no significant concentration of credit risks. Cash and cash equivalents and short-term deposits are placed with a local bank with sound credit ratings. Accounts receivables are mainly due from local customers and related parties and are stated at their estimated realizable values.

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's interest rate risk arise mainly from cash and cash equivalents and short term-bank deposits. All deposits are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Company are not significant.

Currency risk is the risk that the value of a financial instrument may fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in the United States Dollars (USD) and Saudi Arabian Riyal. Other transactions in foreign currencies are not material. Currency risk is managed on a regular basis.

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22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity risk is the risk that an enterprise may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments.

23. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO

CMA has issued Prudential Rules (the "Rules") dated 30 December 2012 (corresponding to 17 Safar 1434H). According to the Rules, the CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology as prescribed under these Rules. In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

| | As at 31 December | |
|---------------------------------------|--------------------|--------|
| | 2016 | 2015 |
| | Amount in SR "000" | |
| Capital Base: | | |
| Tier 1 Capital | 35,794 | 33,016 |
| Tier 2 Capital | 428 | -- |
| Total Capital Base | 36,222 | 33,016 |
| Minimum Capital Requirement: | | |
| Market Risk | 17 | 5 |
| Credit Risk | 10,705 | 12,275 |
| Operational Risk | 12,336 | 5,633 |
| Total Minimum Capital Required | 23,058 | 17,913 |
| Capital Adequacy Ratio: | | |
| Surplus / (Deficit) in Capital | 13,164 | 15,103 |
| Total Capital Ratio (times) | 1.57 | 1.84 |

- a) Capital Base of the Company comprise of
- **Tier-1 capital** consists of paid-up share capital, retained earnings, share premium (if any), reserves excluding revaluation reserves, with certain deductions as per the Rules.
 - **Tier-2 capital** consists of subordinated loans, cumulative preference shares and revaluation reserves, with certain deductions as per the Rules.
- b) The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in the Rules.

The Company's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard the Company's ability to continue as a going concern, and to maintain a strong capital base.

24. APPROVAL OF FINANCIAL STATEMENTS

The accompanying financial statements have been approved by the Board of Directors on 19 March 2017.