

**MALAZ CAPITAL COMPANY**  
**(A CLOSED JOINT STOCK COMPANY)**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**  
together with the  
**INDEPENDENT AUDITORS' REPORT**

**Malaz Capital Company**  
(A Closed Joint Stock Company)  
**Financial statements and auditors' report**  
**For the year ended 31 December 2015**

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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 2015 and the related statements of income, cash flows and changes in 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 Article (123) of the Regulations for Companies and Company's bylaws, and for such internal control 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' responsibility*

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 Company'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.

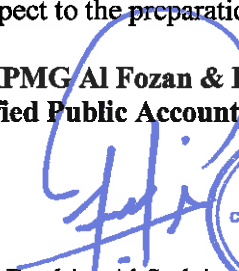
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **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 as at 31 December 2015, 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 bylaws 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: 6 Jumada'II 1437H  
Corresponding to: 15 March 2016

**Malaz Capital Company**  
(A Closed Joint Stock Company)  
**Balance Sheet**  
**For the year ended 31 December 2015**  
*(Amount in Saudi Riyals)*

	<i>Note</i>	<u>2015</u>	<u>2014</u>
<b><u>ASSETS</u></b>			
<b>Current assets</b>			
Cash and cash equivalents	4	26,890,166	24,494,865
Accounts receivable	5	384,309	--
Due from a related party	6	--	5,833,667
Prepayments and other current assets	7	1,125,457	1,153,070
<b>Total current assets</b>		<u>28,399,932</u>	<u>31,481,602</u>
<b>Non-current assets</b>			
Available-for-sale investments	8	14,372,749	17,272,909
Loan to an equity-accounted investee	9	2,499,611	5,987,279
Property and equipment, net	10	2,090,947	2,800,047
<b>Total non-current assets</b>		<u>18,963,307</u>	<u>26,060,235</u>
<b>Total assets</b>		<u>47,363,239</u>	<u>57,541,837</u>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
<b>Current liabilities</b>			
Provision against losses of an equity-accounted investee	11	4,540,966	4,463,045
Accrued expenses and other current liabilities	12	4,816,368	2,859,855
Deferred revenue	13	1,969,706	2,023,857
Provision for Zakat	14	1,268,646	823,159
<b>Total current liabilities</b>		<u>12,595,686</u>	<u>10,169,916</u>
<b>Non-current liabilities</b>			
Employees' end-of-service benefits		1,751,412	1,176,416
<b>Total liabilities</b>		<u>14,347,098</u>	<u>11,346,332</u>
<b>Shareholders' equity</b>			
Share capital	1	60,000,000	60,000,000
Statutory reserve	15	349,161	349,161
Unrealized loss on available-for-sale investments	8	(1,251,702)	(2,778,353)
Accumulated losses		(26,081,318)	(11,375,303)
<b>Total shareholders' equity</b>		<u>33,016,141</u>	<u>46,195,505</u>
<b>Total liabilities and shareholders' equity</b>		<u>47,363,239</u>	<u>57,541,837</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 2015**  
*(Amount in Saudi Riyals)*

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Management fee income		18,277,438	16,246,248
Custody and administration fee		1,582,620	1,821,111
Advisory fee		267,213	132,787
Arrangement fee		<u>1,049,896</u>	<u>195,000</u>
		21,177,167	18,395,146
General and administrative expenses	17	(21,421,179)	(18,666,310)
Share of loss in equity-accounted investee	11	<u>(77,921)</u>	<u>(3,224,780)</u>
<b>Operating loss</b>		<b>(321,933)</b>	<b>(3,495,944)</b>
Impairment loss recognized on financial assets	18	(13,992,919)	--
Realized gain on sale of available-for-sale investments	8	--	7,082,199
Special commission income		30,592	--
Dividend income		641,248	713,012
Other income / (expense)		<u>47,760</u>	<u>(46,384)</u>
<b>Net (loss) / income before zakat</b>		<b>(13,595,252)</b>	<b>4,252,883</b>
<b>Zakat charge</b>	14	<b>(1,110,763)</b>	<b>(761,273)</b>
<b>Net (loss) / income for the year</b>		<b>(14,706,015)</b>	<b>3,491,610</b>
<b>(Loss) / earnings per share:</b>			
Operating loss	19	<u>(0.05)</u>	<u>(0.58)</u>
Net (loss) / income for the year	19	<u>(2.45)</u>	<u>0.58</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 2015**  
*(Amount in Saudi Riyals)*

	<u>Note</u>	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities</b>			
Net (loss) / income for the year	18	(14,706,015)	3,491,610
<i>Adjustments to reconcile net (loss) / income to net cash generated from operating activity:</i>			
Impairment loss recognized on financial assets		13,992,919	--
Zakat	14	1,110,763	761,273
Amortization of pre incorporation expense		--	326,258
Depreciation	10	873,315	627,000
Employees end of service benefits		590,274	399,883
Share of losses of equity-accounted investees	11	77,921	3,224,780
Realized gain from sale of available-for-sale investments	8	--	(7,082,199)
Loss on sale of property and equipment, net		--	46,385
		<u>1,939,177</u>	<u>1,794,990</u>
<i>Changes in operating assets and liabilities</i>			
Accounts receivable		(384,309)	15,049,408
Due from a related party		(120,000)	(70,000)
Prepaid expenses and other assets		27,613	(214,392)
Accrued expenses and other liabilities		1,956,513	(1,935,039)
Deferred revenue		(54,151)	2,023,857
Employees' end-of-service benefits paid		(15,278)	--
Zakat paid during the year	14	(665,276)	(1,855,980)
Net cash generated from operation activities		<u>2,684,289</u>	<u>14,792,844</u>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(164,215)	(2,578,116)
Short-term deposits		--	4,329,000
Loan to an equity-accounted investee		(124,773)	(2,374,838)
Purchase of available-for-sale investments		--	(22,663,022)
Proceeds from sale of available-for-sale investments		--	23,879,056
Net cash (used in) / generated from investing activities		<u>(288,988)</u>	<u>592,080</u>
Net increase in cash and cash equivalents		2,395,301	15,384,924
Cash and cash equivalents at beginning of the year		<u>24,494,865</u>	<u>9,109,941</u>
<b>Cash and cash equivalents at end of the year</b>		<u><u>26,890,166</u></u>	<u><u>24,494,865</u></u>
<b>Supplement non cash information:</b>			
Unrealized gain / (loss) on available-for-sale investments	8	<u>1,526,651</u>	<u>(13,109,137)</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 2015**  
*(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>Retained earnings</u>	<u>Total</u>
<b>Balance as at 1 January 2014</b>	<b>60,000,000</b>	<b>--</b>	<b>3,248,585</b>	<b>(14,517,752)</b>	<b>48,730,833</b>
Net change in fair value of available-for-sale investments	--	--	(13,109,137)	--	(13,109,137)
Transfer to statement of income	--	--	7,082,199	--	7,082,199
Net income for the year	--	--	--	3,491,610	3,491,610
Transfer to statutory reserve	--	349,161	--	(349,161)	--
<b>Balance as at 31 December 2014</b>	<b>60,000,000</b>	<b>349,161</b>	<b>(2,778,353)</b>	<b>(11,375,303)</b>	<b>46,195,505</b>
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)
<b>Balance as at 31 December 2015</b>	<b>60,000,000</b>	<b>349,161</b>	<b>(1,251,702)</b>	<b>(26,081,318)</b>	<b>33,016,141</b>

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 (continued)**  
**For the year ended 31 December 2015**

**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 participate in financial security activities, perform management activities to establish and arrange investment funds, manage portfolios, perform advisory and custody services for the purposes of the administrative procedures related to the investment funds.

On 22 March 2015, the Company applied to CMA for the license to act as a Principal and the CMA through its letter dated 14 June 2015 authorized the company to deal as a Principal.

The Company’s share capital amounting to SR 60 million at 31 December 2015 (31 December 2014: SR 60 million ) consists of 6,000,000 fully paid shares (31 December 2014: 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 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
<b>Total</b>	<b>100</b>	<b>6,000,000</b>	<b>60,000,000</b>

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 to govern the financial and operating policies of those SPE’s so as to obtain benefits from their activities. These SPEs are as follows:

- 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”).

**(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.

**Malaz Capital Company**  
(A Closed Joint Stock Company)  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2015**

**2. BASIS OF PREPARATION (continued)**

**(c) Functional and presentation currency**

These financial statements are presented in Saudi Riyals (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 receivable*

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.

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

Certain comparative amounts have been reclassified to conform with the current year's presentation.

**(a) Revenue recognition**

- Fees charged for managing assets are recognized as revenue as the services are provided.
- Origination fee are recognized upon Fund entering in to an agreement with the Fund's investee.
- Advisory service fees are recognized as the services are rendered.
- Dividends from investments are recognized when right to received dividend is established.

**Malaz Capital Company**  
(A Closed Joint Stock Company)  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2015**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Accounts receivable**

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 principally consist of less than 20% share in 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) 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:

	<u>Years</u>
Lease hold improvement	Shorter of lease term or economic life
Furniture and office equipment	4
Computers and software	3
Mobiles	3
Vehicles	4

**Malaz Capital Company**  
(A Closed Joint Stock Company)  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2015**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Pre-operating expenses**

Pre-operating costs includes all costs and expenses incurred during the pre-operating stage and have the future economic benefits. These costs include lawyers, consultants and various fees relating to registering the Company, costs of the share certificates and expenditure to obtain licenses. Such costs are amortized using the straight-line method, over a period of 5 years.

**(g) End-of-service benefits**

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

**(h) 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.

**(i) 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.

**(j) Accounts payable and accruals**

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**(k) 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.

Provision against onerous contracts are recognized when the cost of meeting the obligations under a contract are expected to exceed the economic benefits expected to be received under it. Such provisions are charged to cost of sales in the consolidated statement of income.

**(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) Foreign currency translation**

Transactions denominated in foreign currencies are translated to the functional currency of the Company at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of the Company at the exchange rate ruling at that date. Exchange difference arising on translation are recognized in the statement of income.

**(n) Zakat**

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

**Malaz Capital Company**  
(A Closed Joint Stock Company)  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2015**  
*(Amount in Saudi Riyals)*

**4. CASH AND CASH EQUIVALENTS**

	<u>2015</u>	<u>2014</u>
Cash in hand	18,500	21,450
Cash at banks – current accounts	26,871,666	24,473,415
	<u>26,890,166</u>	<u>24,494,865</u>

**5. ACCOUNTS RECEIVABLE**

	<u>2015</u>	<u>2014</u>
Processing fee	202,450	--
Advisory fee	163,775	--
Custody fee	18,084	--
	<u>384,309</u>	<u>--</u>

**6. RELATED PARTY TRANSACTION AND BALANCES**

Related parties of the Company include the funds under management, its 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 year ended 31 December and balances arising therefrom 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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b><u>Loan to an equity-accounted investee</u></b>						
Initiative Information Communication and Technology	Equity-accounted investee	Loan	124,773	2,374,328	6,112,052	5,987,279
		Impairment of loan (note18)	(3,612,441)	--	(3,612,441)	--
					<u>2,499,611</u>	<u>5,987,279</u>
<b><u>Due from related parties</u></b>						
Initiative Information Communication and Technology	Equity-accounted investee	Expenses paid	120,000	70,000	5,953,667	5,833,667
		Impairment loss (note18)	(5,953,667)		(5,953,667)	--
IT Security Trading Company	Affiliate	Professional services	232,125	--	--	--
Mutual Funds under Management	Funds Under Management	Administration and custody fee	1,400,000	1,821,111	--	--
		Arrangement and support fee	1,646,898	988,274	--	--
					<u>--</u>	<u>5,833,667</u>

**Malaz Capital Company**  
(A Closed Joint Stock Company)  
**Notes to the financial statements (continued)**  
**For the year ended 31 December 2015**  
*(Amount in Saudi Riyals)*

**6. RELATED PARTY TRANSACTION AND BALANCES (Continued)**

*Due to related parties*

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>		
Bupa Arabian for Cooperative Insurance Company	Affiliate	Medical Insurance	<b>343,620</b>	268,708	--	--	
Emcan Business Technologies and Communications Company	Affiliate	IT Services	<b>2,400</b>	86,120	--	--	
Board of Directors	Board members	Board remuneration	<b>528,921</b>	18,000	--	--	
						<u>--</u>	<u>--</u>
<u><i>Deferred revenue</i></u>							
Mutual Funds under Management	Funds under Management	Management Fee	<b>18,277,438</b>	16,246,248	<u><b>1,969,706</b></u>	<u>2,023,857</u>	

**7. PREPAYMENTS AND OTHER CURRENT ASSETS**

	<u>2015</u>	<u>2014</u>
Reimbursable expenses	<b>561,923</b>	561,923
Prepaid rent	<b>310,683</b>	--
Refundable deposit	<b>148,059</b>	148,059
Others	<b>104,792</b>	443,088
	<u><b>1,125,457</b></u>	<u>1,153,070</u>

**8. AVAILABLE-FOR-SALE INVESTMENTS**

This represent investment in equity shares of Saudi listed companies.

<b>Cost</b>	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	<b>20,051,262</b>	14,185,097
Addition	--	22,663,022
Disposals	--	(16,796,857)
Impairment loss (note 18)	<b>(4,426,811)</b>	--
Balance at end of the year	<u><b>15,624,451</b></u>	<u>20,051,262</u>
<b>Unrealized (loss) / gain on fair value adjustment</b>		
Balance at beginning of the year	<b>(2,778,353)</b>	3,248,585
Unrealized gain / (loss) during the year	<b>1,526,651</b>	(13,109,137)
Realized gain on disposal	--	7,082,199
Balance at end of the year	<u><b>(1,251,702)</b></u>	<u>(2,778,353)</u>
<b>Fair value at end of the year</b>	<u><b>14,372,749</b></u>	<u>17,272,909</u>

**Malaz Capital Company**  
(A Closed Joint Stock Company)  
**Notes to the financial statements (continued)**  
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**9. LOAN TO AN EQUITY-ACCOUNTED INVESTEE**

	<u>2015</u>	<u>2014</u>
Opening balance	5,987,279	3,612,441
Additions	124,773	2,374,838
Impairment loss (note 18)	<u>(3,612,441)</u>	<u>--</u>
	<u>2,499,611</u>	<u>5,987,279</u>

During the year ended 31 December 2015, the Company has provided a further financing of SR 124,773 (2014: SR 2,374,838) to Initiative Information Communication and Technology Ventures ("the Associate") for the purpose of financing their equity-accounted investee operations. The loan amounting to SR 2,499,611 (2014: SR 2,374,838) is due to be repaid in 2018.

**10. PROPERTY AND EQUIPMENT, NET**

	Leasehold improvement	Office Furniture	Computers and software	Vehicles	Mobile	Total
<b>Cost</b>						
1 January 2015	2,069,378	615,887	1,567,732	85,650	53,082	4,391,729
Addition	31,200	24,133	74,784	31,500	2,598	164,215
31 December 2015	<u>2,100,578</u>	<u>640,020</u>	<u>1,642,516</u>	<u>117,150</u>	<u>55,680</u>	<u>4,555,944</u>
<b>Accumulated depreciation</b>						
1 January 2015	194,666	113,545	1,175,511	85,650	22,310	1,591,682
Charge for the year	416,222	153,421	281,607	2,981	19,084	873,315
31 December 2015	<u>610,888</u>	<u>266,966</u>	<u>1,457,118</u>	<u>88,631</u>	<u>41,394</u>	<u>2,464,997</u>
<b>Net book value</b>						
31 December 2015	<u>1,489,690</u>	<u>373,054</u>	<u>185,398</u>	<u>28,519</u>	<u>14,286</u>	<u>2,090,947</u>
31 December 2014	<u>1,874,712</u>	<u>502,342</u>	<u>392,221</u>	<u>--</u>	<u>30,772</u>	<u>2,800,047</u>

**11. PROVISION AGAINST LOSSES OF AN EQUITY-ACCOUNTED INVESTEE**

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	(4,463,045)	(1,238,265)
Share of losses	(77,921)	(3,224,780)
Balance at end of the year	<u>(4,540,966)</u>	<u>(4,463,045)</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 2014: 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.

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**12. ACCRUED EXPENSES AND OTHER LIABILITIES**

	<u>2015</u>	<u>2014</u>
Accrued employees' expenses	2,651,872	2,467,560
Consultation fee	1,744,683	--
Professional fee	249,000	330,373
Others	170,813	61,922
	<u>4,816,368</u>	<u>2,859,855</u>

**13. DEFERRED REVENUE**

	<u>2015</u>	<u>2014</u>
Management fee received in advance (13.1)	1,969,706	1,956,644
Advisory fee received in advance	--	67,213
	<u>1,969,706</u>	<u>2,023,857</u>

13.1 This represents management fee received in advance from Malaz Real Estate Opportunity Fund I.

**14. PROVISION FOR ZAKAT**

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

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	823,159	1,917,866
Payment made during the year	(665,276)	(1,855,980)
	<u>157,883</u>	<u>61,886</u>
Charge for the year – current year	749,030	761,273
– reversal of prior year's excess accrual	(157,883)	--
– prior years (14.3)	519,616	--
	<u>1,110,763</u>	<u>761,273</u>
Balance at end of the year	<u>1,268,646</u>	<u>823,159</u>

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

	<u>2015</u>	<u>2014</u>
Adjusted Shareholders Equity	49,801,115	46,258,782
Adjusted net income	(3,376,230)	7,877,546
Less:		
Investment in equity-accounted investees	--	(3,612,441)
Property and Equipment	(2,090,947)	(2,800,047)
Other investments	(14,372,749)	(17,272,909)
Zakat base	<u>29,961,189</u>	<u>30,450,931</u>
Zakat @ 2.5%	<u>749,030</u>	<u>761,273</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 Department of Income Tax (DZIT) up to 2014.

During the year the Company has received the final assessments for the years from 2010 to 2013 from DZIT with additional liabilities of Zakat amounting to SR 1.9 million. The Company has filed an appeal against these assessments and 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 additional provision has been created in these financial statements.



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**15. STATUTORY RESERVE**

In accordance with Regulations for Companies in the Kingdom of Saudi Arabia, the Company has established a statutory reserve by appropriation of 10% of its net income for the year until the reserve equal to 50% of its share capital. The statutory reserve is not available for dividend distribution. The Company has incurred losses during the year and has not appropriated for the reserve accordingly.

**16. ASSETS HELD UNDER FIDUCIARY CAPACITY**

As at 31 December 2015, the Company legally owns certain shares amounting to SR 169.25 million (31 December 2014: Nil) 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. GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2015</u>	<u>2014</u>
Employee related cost	14,209,618	12,334,762
Legal, professional and consultancy expenses	3,263,345	2,651,174
Rent	1,341,840	1,413,237
Depreciation (note 10)	873,315	627,000
Board members remuneration	528,921	18,000
Communication	316,278	206,595
Travelling expenses	291,310	231,643
Government and subscription fee	163,005	167,667
License fee	102,500	85,000
Cleaning expense	91,121	206,675
Marketing fee	20,625	117,150
IT & Networking related expense	14,363	103,515
Amortization of pre incorporation expenses	—	326,258
Others	204,938	177,634
	<u>21,421,179</u>	<u>18,666,310</u>

**18. IMPAIRMENT LOSS RECOGNISED ON FINANCIAL ASSETS:**

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Impairment loss recognized on:			
Due from a related party	6	5,953,667	--
Available-for-sale investments	8	4,426,811	--
Loan to an equity-accounted investee	9	3,612,441	--
		<u>13,992,919</u>	<u>--</u>

**19. EARNINGS PER SHARE**

Earnings per share is calculated by dividing the income from operations and net income for the year by dividing the weighted average number of ordinary shares of 6,000,000 (2014: 6,000,000 shares)

**20. FAIR VALUES**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, available-for-sale investments, accounts receivable, due from a related party and prepaid expenses and other assets and its financial liabilities consist of accounts payable and accrued expenses and other liabilities. The fair values of financial instruments are not materially different from their carrying values.

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**21. COMMITMENT**

**21.1** In addition to the cost of investment in equity-accounted investee amounting to SR 300,000 (note 11), the Company has committed to finance the equity-accounted investee with an aggregate amount of SR 7,200,000 to support its operations. As of 31 December 2014, the Company had already provided an advance amounting to SR 3,612,441.

During the year, the shareholders of the equity-accounted investee, through their agreement dated 29 December 2015, agreed to cancel the above-mentioned commitment. Accordingly, as at 31 December 2015, the Company does not have any undrawn commitment towards the equity-accounted investee (2014: SR 3,887,559). However by virtue of a letter of support issued by the Company, along with other shareholders of equity-accounted investee, the Company has committed to provide financial support to equity-accounted investee as and when required.

**21.2** As at 31 December 2015, the Company has operating lease commitment for the office building as follows:

	<u>2015</u>	<u>2014</u>
2015	--	1,302,840
2016	1,302,840	1,302,840
2017	1,302,840	1,302,840
2018	1,302,840	1,302,840
2019	278,415	278,415
	<u>4,186,935</u>	<u>5,489,775</u>

**21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial instruments carried on the balance sheet include cash at bank, investments, loan to equity-accounted investee and due from a related party.

**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 are placed with a local bank with sound credit ratings. Accounts receivable are mainly due from local customers and related parties and are stated at their estimated realizable values.

**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.

**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 and Saudi Arabian Riyals. Other transactions in foreign currencies are not material. Currency risk is managed on regular basis.

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**23. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO**

The Capital Market Authority (the "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, Malaz Capital has calculated its minimum capital required and capital adequacy ratios as follows:

	As at 31 December	
	2015	2014
	Amount in SR "000"	
<b>Capital Base:</b>		
Tier 1 Capital	33,016	46,196
Tier 2 Capital	--	--
<b>Total Capital Base</b>	<b>33,016</b>	<b>46,196</b>
<b>Minimum Capital Requirement:</b>		
Market Risk	5	--
Credit Risk	12,275	21,675
Operational Risk	5,633	4,865
<b>Total Minimum Capital Required</b>	<b>17,913</b>	<b>26,540</b>
<b>Capital Adequacy Ratio:</b>		
Surplus / (Deficit) in Capital	15,103	19,656
<b>Total Capital Ratio (times)</b>	<b>1.84</b>	<b>1.74</b>

- 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 6 Jumada'II 1437H (corresponding to 15 March 2016).