

MALAZ CAPITAL COMPANY
(A CLOSED JOINT STOCK COMPANY)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
together with the
INDEPENDENT AUDITORS' REPORT

Malaz Capital Company
(A Closed Joint Stock Company)
Financial statements
For the year ended 31 December 2017

INDEX	PAGES
Balance sheet	1
Statement of income	2
Statement of cash flows	3
Statement of changes in shareholders' equity	4
Notes to the financial statements	5 – 18



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Independent auditors' report

To the shareholders of
Malaz Capital Company
Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the financial statements of **Malaz Capital Company** ("the Company"), which comprise the balance sheet as at 31 December 2017, the statements of income, cash flows and changes in shareholder's equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the balance sheet of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting standards as issued by Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting standards as issued by SOCPA and the applicable requirements of the Regulations for Companies, Company's By-laws, 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.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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 auditors' 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, 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 control.
- Obtain an understanding of internal control 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 Company's internal control.
- 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company 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 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 control that we identify during our audit of Malaz Capital Company ("the Company").

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No: 371

Riyadh on: 12 Rajab 1439H
Corresponding to: 29 March 2018



Malaz Capital Company
(A Closed Joint Stock Company)
Balance Sheet
As at 31 December 2017
(Amount in Saudi Riyals)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents	4	9,858,341	12,543,701
Short-term deposits	5	--	16,000,000
Accounts receivables		328,972	120,330
Prepayments and other current assets	7	4,227,550	2,061,803
Total current assets		14,414,863	30,725,834
Non-current assets			
Available-for-sale investments	8	25,374,705	15,249,589
Loan to an equity-accounted investee	9	--	1,954,162
Property and equipment, net	10	1,728,499	2,025,662
Total non-current assets		27,103,204	19,229,413
TOTAL ASSETS		41,518,067	49,955,247
<u>LIABILITIES AND EQUITY</u>			
Current liabilities			
Provision against losses of an equity-accounted investee	11	26,557	1,386,975
Due to a related party	6	86,250	--
Accrued expenses and other current liabilities	12	4,954,480	7,723,424
Deferred revenue	13	1,956,644	1,956,644
Provision for zakat	14	539,627	796,706
Total current liabilities		7,563,558	11,863,749
Non-current liabilities			
Employees' end-of-service benefits		2,247,515	1,869,638
Total liabilities		9,811,073	13,733,387
Shareholders' equity			
Share capital	1	60,000,000	60,000,000
Statutory reserve	15	501,739	501,739
Unrealized gain on available-for-sale-investments	8	552,232	428,236
Accumulated losses		(29,346,977)	(24,708,115)
Total shareholders' equity		31,706,994	36,221,860
Total liabilities and shareholders' equity		41,518,067	49,955,247

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 2017
(Amount in Saudi Riyals)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Management and performance fee income	17	14,737,500	48,369,229
Custody and administration fee		1,782,693	1,602,682
Arrangement and processing fee		--	120,000
Advisory and support fee		--	75,000
		<u>16,520,193</u>	<u>50,166,911</u>
General and administrative expenses	18	(24,282,547)	(48,695,911)
Share of income in an equity-accounted investee	11	<u>1,360,418</u>	<u>3,153,991</u>
Operating (Loss) / Income		(6,401,936)	4,624,991
Gain on disposal of available-for-sale investments		979,400	--
Impairment reversal / (loss) on financial assets	19	494,399	(3,365,244)
Special commission income		184,042	361,101
Dividend income		<u>485,481</u>	<u>551,176</u>
Net (loss) / income before zakat		(4,258,614)	2,172,024
Zakat charge	14	<u>(380,248)</u>	<u>(646,243)</u>
Net (loss) / income for the year		(4,638,862)	1,525,781
(Loss) / earnings per share:	20		
Operating (loss) / income		<u>(1.07)</u>	<u>0.77</u>
Net (loss) / income for the year		<u>(0.77)</u>	<u>0.25</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 2017
(Amount in Saudi Riyals)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities			
Net (loss) / income for the year		(4,638,862)	1,525,781
Adjustments to reconcile net (loss) / income to net cash (used in) / generated from operating activity:			
Impairment (reversal) / loss on financial assets		(636,730)	3,365,244
Zakat	14	380,241	646,243
Amortization of premium on investments		18,241	--
Depreciation	10	798,411	721,573
Gain on disposal of available-for-sale investments		(979,400)	--
Employees-end-of-service benefits		561,951	502,707
Share of income of an equity-accounted investee	11	(1,360,418)	(3,153,991)
Loss on disposal of property and equipment		-	362
		<u>(5,856,544)</u>	<u>3,607,919</u>
<u>Changes in operating assets and liabilities</u>			
Accounts receivables		(208,642)	263,979
Due to a related party		86,250	--
Prepaid expenses and other current assets		(2,540,363)	(1,123,654)
Accrued expenses and other current liabilities		(2,768,944)	2,907,056
Deferred revenue		--	(13,062)
Employees' end-of-service benefits paid		(184,075)	(384,481)
Zakat paid during the year	14	(637,327)	(1,118,183)
Net cash (used in) / generated from operation activities		(12,109,645)	4,139,574
Cash flows from investing activities			
Purchase of property and equipment	10	(501,254)	(656,650)
Short-term deposits		16,000,000	(16,000,000)
Loan to an equity-accounted investee	9	--	(1,954,162)
Purchase of available-for-sale investments		(12,874,178)	--
Proceeds from available-for-sale investments		6,799,717	--
Repayment of loan from an equity-accounted investee		--	124,773
Net cash generated from / (used in) investing activities		9,424,285	(18,486,039)
Net decrease in cash and cash equivalents		(2,685,360)	(14,346,465)
Cash and cash equivalents at beginning of the year		<u>12,543,701</u>	<u>26,890,166</u>
Cash and cash equivalents at end of the year	4	<u>9,858,341</u>	<u>12,543,701</u>
Supplement non-cash information:			
Unrealized gain on available-for-sale investments	8	123,996	1,679,938
Impairment loss against reimbursable expenses	19	374,616	187,308
Additions to available for sale investment	9	<u>5,629,500</u>	<u>--</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 2017
(Amount in Saudi Riyals)

	<u>Note</u>	<u>Share capital</u>	<u>Statutory Reserve</u>	<u>Unrealized (loss) / gain on sale-investments</u>	<u>Accumulated Losses</u>	<u>Total</u>
Balance as at 1 January 2016		60,000,000	349,161	(1,251,702)	(26,081,318)	33,016,141
Net Change in fair value of available-for-sale Investments		--	--	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		<u>60,000,000</u>	<u>501,739</u>	<u>428,236</u>	<u>(24,708,115)</u>	<u>36,221,860</u>
Net Change in fair value of available-for-sale Investments	8	--	--	123,996	--	123,996
Net loss for the year		--	--	--	--	--
Balance as at 31 December 2017		<u>60,000,000</u>	<u>501,739</u>	<u>552,232</u>	<u>(4,638,862)</u> <u>(29,346,977)</u>	<u>(4,638,862)</u> <u>31,706,994</u>

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 2017
(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 principal, perform management activities to establish and arrange investment funds, manage portfolios, perform 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 license by canceling Arranging and Advisory activities, which was approved by CMA through its letter dated 15 June 2016.

The Company's share capital amounting to SR 60 million at 31 December 2017 (31 December 2016: SR 60 million) consists of 6,000,000 fully paid shares (31 December 2016: 6,000,000 fully paid shares) of SR 10 each, and is distributed among the shareholders as follows:

Shareholders	Ownership percentage (%)	Number of shares	Share Capital (SR)
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 significant 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 are:

- Second Malaz commercial Company;
- Third Malaz commercial Company;
- Malaz Sara commercial Company;
- Salwa Al Malaz commercial Company; and
- Fourth 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 2017
(Amount in Saudi Riyals)

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

As required by Saudi Organization for Certified Public Accountants ("SOCPA"), all other reporters' companies "Non-listed" are required to transition to International Financial Reporting Standards ("IFRS") as endorsed by SOCPA effective 1 January 2018 for preparation of their financial statements. In preparing the first set of IFRS financial statements, the Company will analyze the impact of the first time adoption of IFRS on current and prior year financial statements and will accordingly incorporate the necessary adjustments "to adopt certain accounting policies that may be different from current SOCPA GAAP" in its first set of IFRS financial statements.

(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 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 Company exercises judgement to consider impairment on the available-for-sale equity and debt investments at each reporting date. In case of equity securities, this includes determination of a significant and prolonged decline in the fair value below its cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. The determination of what is "significant" and "prolonged" requires judgment. In making this judgement, the Company evaluates, among other factors, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In making this judgement, the Company evaluates among other factors, the normal volatility in share/debt price, deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Company reviews its debt securities classified as available-for-sale at each reporting date to assess whether they are impaired. The amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income. If, in a subsequent period, the fair value of a debt security increases and the increase can be

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2017
(Amount in Saudi Riyals)

2. BASIS OF PREPARATION (continued)

Impairment of available-for-sale investments (continued)

objectively related to credit event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Impairment of account receivables

A provision for impairment of account 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.

(a) Revenue recognition

- Fees charged for managing assets are recognized as revenue as the services are provided.
- Advisory services fees are recognised as the services are rendered.
- 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 includes equity and debt securities which are neither classified as held to maturity investments nor held-for-trading, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as "available-for-sale" are initially recognized at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Unrealized gains or losses arising from changes in fair value are recognized in other comprehensive income until the investment is de-recognized or impaired whereupon any cumulative gain or loss previously recognized in other comprehensive income are reclassified to statement of income.

Special commission income is recognized in the statement of income on effective yield basis. Dividend income is recognized in the statement of income when the Company becomes entitled to the dividend. Foreign exchange gains or loss on available-for-sale debt security investments are recognized in the statement of income.

(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

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2017
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Equity-accounted investee (continued)

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 in 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) Foreign currency transactions

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.

(g) 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.

(h) 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 and equipment. All other expenditure is recognized in the statement of income when incurred.

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of individual item of property and equipment. The estimated useful lives of assets are 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

(a) 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 probable that an outflow of economic benefit will be required to settle the obligation.

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2017
(Amount in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Operating lease

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

(c) Zakat

The Company is subject to zakat in accordance with the regulations of General Authority of Zakat and Tax ("GAZT"). Zakat is accrued and charged to the statement of income. 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>2017</u>	<u>2016</u>
Cash in hand	10,250	20,250
Cash at banks – current accounts	9,848,091	6,523,451
Short-term deposit (4.1)	--	6,000,000
	<u>9,858,341</u>	<u>12,543,701</u>

- 4.1** As at 31 December 2016, short term deposits included deposit placed with a local bank with an original maturity of less than 3 months and have 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 an original maturity of more than 3 months but less than one year and have an average special commission rate of 3.10% per annum.

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2017
(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, affiliated companies, board of 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 are described as under:

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u> <u>2017</u>	<u>Amount of transactions</u> <u>2016</u>	<u>Closing balance</u> <u>2017</u>	<u>Closing balance</u> <u>2016</u>
<u>Loan to an equity-accounted investee</u>						
Initiative Information Communication and Technology	The Associate	Loan (note 9)	--	1,954,162	--	4,329,000
		Impairment of loan (note 19)	(1,954,162)	(2,374,838)	--	(2,374,838)
					--	1,954,162
<u>Due from related parties</u>						
Initiative Information Communication and Technology	The Associate	Expenses paid	142,331	--	--	5,953,667
		Impairment loss (note 19)	142,331	--	--	(5,953,667)
IT Security Trading Company	Affiliate	Professional services	--	41,400	--	--
Mutual funds under management	Funds Under Management	Administration and custody fee	1,000,000	1,000,000	--	--
		Arrangement and support fee	--	120,000	--	--
					--	--
<u>Due to related parties</u>						
Bupa Arabian for Cooperative Insurance Company	Affiliate	Medical Insurance	514,518	416,229	--	--
Emcan Business Technologies and Communications Company	Affiliate	IT Services	17,388	--	--	--
Mutual funds under management	Funds Under Management	Professional services	273,000	--	86,250	--
Board of Directors	Board members	Board remuneration	1,215,000	107,986	--	--
					86,250	--
<u>Deferred revenue</u>						
Mutual funds under management	Funds under Management	Management fee and performance fee (note 13)	14,737,500	48,369,229	1,956,643	1,956,643

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2017
(Amount in Saudi Riyals)

7. PREPAYMENTS AND OTHER CURRENT ASSETS

	<u>2017</u>	<u>2016</u>
Reimbursable expenses (note 19)	2,364,456	1,244,951
Prepaid rent	305,283	310,683
Refundable deposit	148,059	148,059
Accrued special commission income	72,883	222,663
Margin deposit against bank guarantee (note 14.1)	1,101,416	--
Others	235,453	135,447
	<u>4,227,550</u>	<u>2,061,803</u>

8. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31 December 2017 are as follows:

<u>2017</u>	<u>Book value</u>	<u>Fair value</u>	<u>Unrealized gains</u>
Quoted equity securities (8.1)	9,978,872	10,423,303	444,431
Quoted Debt securities (8.2)	3,593,606	3,538,199	(55,407)
ICD Money Market Fund	7,500,000	7,663,208	163,208
Unquoted foreign equity security (8.3)	3,749,995	3,749,995	--
	<u>24,822,473</u>	<u>25,374,705</u>	<u>552,232</u>
<u>2016</u>	<u>Book value</u>	<u>Fair value</u>	<u>Unrealized gains</u>
Quoted equity securities (8.1)	14,821,353	15,249,589	428,236

8.1 This represents investment in equity securities listed on Saudi Stock Exchange and Nasdaq Dubai Stock Exchange markets as follows:

	<u>2017</u>		<u>2016</u>	
Description	Book value	Fair Value	Book value	Fair Value
Equity securities portfolio (<i>note 8.1.1</i>)	8,216,548	8,716,691	14,821,353	15,249,589
Dubai Islamic Bank tier 1 Sukuk 2	1,762,324	1,706,612	—	—
	9,978,872	10,423,303	14,821,353	15,249,589

8.1.1 As at 31 December 2017, an impairment of SR 784,487 (2016: SR 803,098) on equity investments has been recognized in the statement of income (note 19).

8.2 This represents investment in Sukuk issued by counterparties having sound credit ratings. These Sukuk are listed on Nasdaq Dubai Stock Exchange market. The details of these investments are as follows:

<u>Description</u>	<u>Maturity date</u>	<u>2017</u>	<u>2016</u>
EMG Sukuk Limited	18 June 2024	1,768,085	-
Alpha Star Holding Ltd	9 April 2019	1,770,114	-
		<u>3,538,199</u>	<u>-</u>

These Sukuk carry an annual average special commission rate of 4.77% per annum.

8.3 This represents shares acquired by the company under a settlement agreement with the Associate (note 9).

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2017
(Amount in Saudi Riyals)

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>2017</u>	<u>2016</u>
Balance at beginning of the year	1,954,162	2,499,611
Additions	--	1,954,162
Repayment	--	(124,773)
Impairment loss (note 19)	(1,954,162)	(2,374,838)
Balance at end of the year	<u>--</u>	<u>1,954,162</u>

As at 31 December 2016, the Company had an outstanding receivable from the associate amounting to SR 10.4 million against which an amount of SR 8.3 million was recorded as a provision of impairment losses. During the current year, the Company entered into a final settlement agreement with the Associate in relation to the above receivables. As per the settlement agreement, the Associate transferred its ownership in the shares of Ideal Rating Inc., an entity incorporated in USA, to the Company at a value of SR 5.6 million. The Company has recorded these shares at their fair value in its books and written off the unsettled receivables balance.

10. PROPERTY AND EQUIPMENT, NET

	Leasehold improvement	Office furniture	Computers and software	Vehicles	Mobile	Total
Cost:						
1 January 2017	2,112,020	674,080	2,253,664	117,150	52,481	5,209,395
Additions	-	26,817	474,437	--	--	501,254
Disposals	--	--	--	--	(3,199)	(3,199)
31 December 2017	2,112,020	700,897	2,728,101	117,150	49,282	5,707,450
Accumulated depreciation:						
1 January 2017	1,031,039	424,245	1,583,703	96,506	48,240	3,183,733
Charge for the year	422,404	144,407	220,028	7,875	3,703	798,417
Disposals	--	--	--	--	(3,199)	(3,199)
31 December 2017	1,453,443	568,652	1,803,731	104,381	48,744	3,978,951
Net book value:						
31 December 2017	658,577	132,245	924,370	12,769	538	1,728,499
31 December 2016	1,080,981	249,834	669,961	20,644	4,241	2,025,662

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>2017</u>	<u>2016</u>
Balance at beginning of the year	1,386,975	4,540,966
Share of (income)	(1,360,418)	(3,153,991)
Balance at end of the year	<u>26,557</u>	<u>1,386,975</u>

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2017
(Amount in Saudi Riyals)

11. PROVISION AGAINST LOSSES OF AN EQUITY-ACCOUNTED INVESTEE (CONTINUED)

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 the Company's share in the Associate losses over the years, the carrying value of investment reached to SR Nil (31 December 2016: 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.

12. ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>2017</u>	<u>2016</u>
Accrued employees' expenses	1,303,629	2,458,402
Consultation fee	295,619	711,196
Professional fee	312,500	1,049,063
Management fee rebate (note 18)	2,652,089	2,652,089
Others	390,643	852,674
	<u>4,954,480</u>	<u>7,723,424</u>

13. DEFERRED REVENUE

	<u>2017</u>	<u>2016</u>
Management fee received in advance (13.1)	1,956,644	1,956,644
	<u>1,956,644</u>	<u>1,956,644</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

Zakat Status

- 14.1** The Company has filed its Zakat returns up to the year ended 31 December 2016 with the General Authority of Zakat and Tax ("GAZT").

During the year ended 31 December 2015, the Company received a final assessment for the years from 2010 to 2013 from GAZT with additional liabilities of Zakat amounting to SR 1.9 million. The Company had filed an appeal against these assessments, which was resolved against the Company by the Preliminary Objection Committee (POC) during the year.

In response to this, the company filed an appeal to the Higher Appeal Committee (HAC) against the Preliminary Objection Committee (POC) Resolution number 28, year 1438H (dated 3/11/1438H). The Company provided a bank Guarantee No. C 181752 dated 9 October 2017 amounting of SR 1,101,416. The appeal is currently under HAC review.

- 14.1** 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 already recorded in 2015 annual financial statements.

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2017
(Amount in Saudi Riyals)

14. PROVISION FOR ZAKAT (CONTINUED)

Movement in Zakat Provision

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

	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	796,706	1,268,646
Payment made during the year	(637,327)	(1,118,183)
	<u>159,379</u>	<u>150,463</u>
Charge for the year – current year	539,627	646,243
– reversal of prior year's excess accrual	(159,379)	--
	<u>380,248</u>	<u>--</u>
Balance at end of the year	<u>539,627</u>	<u>796,706</u>

Zakat Calculation

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

	<u>2017</u>	<u>2016</u>
Adjusted shareholders' equity	37,875,012	36,019,255
Adjusted net (loss) / income	(4,582,561)	4,590,634
Less:		
Property and equipment	(1,728,499)	(2,025,662)
Other investments	(9,978,872)	(15,249,689)
Zakat base	<u>21,585,080</u>	<u>23,334,538</u>

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

15. STATUTORY RESERVE

In accordance with the Company's By-laws and the new Saudi Arabian Regulations for Companies that came into effect on 25 Rajab 1437H (corresponding to May 2, 2016), the Company sets aside 10% of its net income each year as statutory reserve until such reserve equals to 30% of the share capital. No transfer has been made to statutory reserve since the Company incurred net loss during the year.

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

16. ASSETS HELD UNDER FIDUCIARY CAPACITY

As at 31 December 2017, the Company legally owns certain shares amounting to SR 169.25 million (31 December 2016: SR 179.325 million) 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.

During the current year, the client has terminated the custody agreement with the Company and an arrangement was made to transfer the assets to the new custodian.

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2017
(Amount in Saudi Riyals)

17. MANAGEMENT AND PERFORMANCE FEE

	<u>2017</u>	<u>2016</u>
Performance fee (17.1)	--	31,250,000
Management fee	<u>14,737,500</u>	<u>17,119,229</u>
	<u>14,737,500</u>	<u>48,369,229</u>

- 17.1** During the year ended 31 December 2016, the Company earned a performance (exit) fee amounting to 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 adjusted sale price of the underlying investment) of the exit proceeds.

18. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2017</u>	<u>2016</u>
Management fee and performance fee rebate (18.1)	3,737,500	28,089,059
Employees related cost	14,063,427	13,020,184
Legal, professional and consultancy expenses	1,812,601	3,458,494
Rent	1,337,040	1,338,840
Depreciation (note 10)	798,417	721,573
Communication	350,876	397,251
Travelling expenses	464,887	239,874
Government and subscription fee	100,240	110,736
Board members remuneration	866,348	632,986
IT & Networking related expense	227,032	98,801
License fee	75,000	91,667
Cleaning expense	72,000	72,000
Marketing fee	112,290	20,625
Others	264,889	403,821
	<u>24,282,547</u>	<u>48,695,911</u>

- 18.1** During the year, the Company has given a rebate against management fee to the unitholders of funds under management amounting to SR 3.74 million (2016: SR 14.69 million).

19. IMPAIRMENT REVERSAL / (LOSS) ON FINANCIAL ASSETS

	<u>2017</u>	<u>2016</u>
Impairment loss recognized on:		
Loan to an equity-accounted investee (note 9)	3,675,338	(2,374,838)
Available-for-sale investments (note 8)	(2,663,992)	(803,098)
Impairment loss against reimbursable expenses (note 7)	(374,616)	(187,308)
Due from a related party (19.1)	(142,331)	---
	<u>494,399</u>	<u>(3,365,244)</u>

- 19.1** This represents expenses paid by the Company on behalf of the Associate in relation to legal and professional fees.

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2017
(Amount in Saudi Riyals)

20. (LOSS) / EARNINGS PER SHARE

(Loss) / earnings per share is calculated by dividing the (loss) / earnings from operations and net (loss) / earnings for the year by the weighted average number of ordinary shares of 6 million (2016: 6 million shares).

21. COMMITMENT

21.1 The Company has committed to provide financial support to equity-accounted investee as and when required by 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 commitments for the office building as follows:

Years	<u>2017</u>	<u>2016</u>
2017	--	1,302,840
2018	1,302,840	1,302,840
2019	278,415	278,415
	<u>1,581,255</u>	<u>2,884,095</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 local banks, having sound credit ratings. Accounts receivables are mainly due from local customers and related parties and are stated at their realizable value.

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. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

Commission rate risk is represented by the exposure to multiple risks related to the impact of changes in commission rates in the market on the Company's financial position and cash flows. The Company monitors the fluctuations in commission rates and believes that the impact of commission rates risk is 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 Riyals. Other transactions in foreign currencies are not material. Currency risk is managed on a regular basis.

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.

Malaz Capital Company
(A Closed Joint Stock Company)
Notes to the financial statements
For the year ended 31 December 2017
(Amount in Saudi Riyals)

23. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO

CMA issued the 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	
	2017	2016
	Amount in SR “000”	
Capital Base:		
Tier 1 Capital	31,099	35,794
Tier 2 Capital	608	428
Total Capital Base	31,707	36,222
Minimum Capital Requirement:		
Market Risk	--	17
Credit Risk	13,528	10,705
Operational Risk	6,166	12,336
Total Minimum Capital Required	19,694	23,058
Capital Adequacy Ratio:		
Surplus in Capital	12,013	13,164
Total Capital Ratio (times)	1.61	1.57

- 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 12 Rajab 1439H (corresponding to 29 March 2018).