

AL WASATAH AL MALIAH COMPANY
(WASATAH CAPITAL)
(A Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
TOGETHER WITH THE
INDEPENDENT AUDITOR'S REPORT

AL WASATAH ALMALIAH COMPANY
(A Closed Joint Stock Company)

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FOR THE YEAR ENDED DECEMBER 31, 2017**

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INDEPENDENT AUDITORS' REPORT

**To the Shareholders of
Al Wasatah Al Maliah Company
(A Closed Joint Stock Company)**

Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the financial statements of **Al Wasatah Al Maliah Company** (a Closed Joint Stock Company) ("the Company"), which comprise the balance sheet as at December 31, 2017, and the statement of income, statement of cash flows and statement of changes in equity for the year then ended, and notes 1 to 22 to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting principles in the Kingdom of Saudi Arabia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Saudi Arabia 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.

Other matter

The financial statements of the prior year were audited by the predecessor auditor who issued an unqualified opinion thereon in their report dated 17 Jumada'II 1438H corresponding to 16 March 2017G.

Responsibilities of the Company's Management and Those Charged with Governance for the Financial Statements

The Company's Management is responsible for the preparation and fair presentation of the financial statements in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia and the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements, 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.

INDEPENDENT AUDITORS' REPORT (Continued)

In preparing the financial statements, the Company's 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 the Company's 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.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs 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 Company's management.
- Conclude on the appropriateness of Company'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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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.

INDEPENDENT AUDITORS' REPORT (Continued)

Report on other legal and regulatory requirements

In our opinion these financial statements, taken as a whole, comply with the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

For Dr. Mohamed Al-Amri & Co.



Gihad Al-Amri
Certified Public Accountant
Registration No. 362



Riyadh, on 03 Rajab 1439 (H)
Corresponding to: 20 March 2018 (G)

AL WASATAH AL MALIAH COMPANY
(A Closed Joint Stock Company)

BALANCE SHEET
AS OF DECEMBER 31, 2017

	<u>Notes</u>	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	4	53,349,939	40,123,850
Murabaha deposit		-	19,000,000
Accrued income, prepayments and other current assets	5	1,997,970	2,501,216
Total current assets		55,347,909	61,625,066
Non-current assets:			
Investments	6	125,449,940	135,821,254
Property and equipment, net	7	259,285	340,830
Intangible assets, net	8	14,663	50,191
Total non-current assets		125,723,888	136,212,275
TOTAL ASSETS		181,071,797	197,837,341
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities			
Accrued expenses and other current liabilities	9	921,269	835,728
Provision for zakat and income tax	10	6,920,736	7,704,372
Total current liabilities		7,842,005	8,540,100
Non-current liabilities			
Employees' end of service benefits	11	2,046,986	1,654,606
Total liabilities		9,888,991	10,194,706
Shareholders' equity			
Share capital	12	250,000,000	250,000,000
Unrealized loss on investment		(9,822,170)	(7,329,506)
Accumulated losses		(68,995,024)	(55,027,859)
Total shareholders' equity		171,182,806	187,642,635
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		181,071,797	197,837,341

The accompanying notes 1 to 22 form an integral part of these financial statements

AL WASATAH AL MALIAH COMPANY
(A Closed Joint Stock Company)

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Notes</u>	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
Realized gain on disposal of available-for-sale investments		1,624,755	1,763,710
Dividend income		3,548,682	4,711,462
Income from murabaha placements and held to maturity investments		1,395,618	2,130,209
Income from advisory services	14	5,088,255	4,702,068
Management fee		2,476,948	2,737,962
Total operating income		14,134,258	16,045,411
Salaries and employee related expenses		8,895,697	9,039,745
Rent and premises related expenses		547,138	548,647
IT support and communication expenses		613,673	714,223
Depreciation and amortization	7&8	134,414	121,491
Impairment loss on available for sale investments	6.1.1	14,638,808	11,574,662
Other general and administrative expenses	15	2,163,779	2,754,122
Total operating expenses		26,993,509	24,752,890
Net operating loss for the year		(12,859,251)	(8,707,479)
Other income		254,905	366,425
Net loss for the year		(12,604,346)	(8,341,054)
Net operating loss per share	17	(0.51)	(0.35)
Net loss per share	17	(0.50)	(0.33)

The accompanying notes 1 to 22 form an integral part of these financial statements

AL WASATAH AL MALIAH COMPANY
(A Closed Joint Stock Company)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net loss for the year	(12,604,346)	(8,341,054)
<i>Adjustments to reconcile net income before zakat to net cash used in operating activities:</i>		
Depreciation and amortization	134,414	121,491
Gain on disposal of property and equipments	(1,849)	-
Intangible asset written off during the year	21,749	-
Provision for employees end-of-service benefits	418,251	396,908
Impairment loss on available-for-sale investments	14,638,808	11,574,662
Realized gain on disposal of available-for-sale investments	(1,624,755)	(1,763,710)
<i>Movement in operating assets and liabilities</i>		
Accrued income, prepayments and other current assets	503,246	1,084,484
Accrued expenses and other current liabilities	85,541	157,522
Cash used in operations	1,571,059	3,230,303
Zakat and income tax paid	(2,146,455)	(1,653,709)
Employees' end of service benefits paid	(25,871)	(57,913)
Net cash generated (used in) / from operating activities	(601,267)	1,518,681
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of available-for-sale investments	(30,901,726)	(18,924,652)
Purchase of held-to-maturity investments	-	(39,000,000)
Proceeds from disposal of available-for-sale investments	25,766,323	11,306,123
Proceeds from redemption of Murabaha placements	19,000,000	75,008,000
Purchase of property and equipment	(40,940)	(111,329)
Proceeds from disposal of property and equipment	3,699	-
Net cash generated from investing activities	13,827,356	28,278,142
Net increase in cash and cash equivalents	13,226,089	29,796,823
Cash and cash equivalents at beginning of the year	40,123,850	10,327,027
Cash and cash equivalents at end of the year	53,349,939	40,123,850
<u>Non-cash transaction:</u>		
Net changes in fair value of available-for-sale investments	(2,492,664)	16,510,663

The accompanying notes 1 to 22 form an integral part of these financial statements

AL WASATAH AL MALIAH COMPANY
(A Closed Joint Stock Company)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Share Capital</u>	<u>Unrealized loss on Investment</u>	<u>Accumulated Losses</u>	<u>Total</u>
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Balance as at January 01, 2016	250,000,000	(23,840,169)	(41,865,085)	184,294,746
Net loss for the year	-	-	(8,341,054)	(8,341,054)
Provision for zakat and income tax (Note 10)	-	-	(4,821,720)	(4,821,720)
Net changes in fair value of available for sale investments	-	16,510,663	-	16,510,663
Balance as at December 31, 2016	250,000,000	(7,329,506)	(55,027,859)	187,642,635
Net loss for the year	-	-	(12,604,346)	(12,604,346)
Provision for zakat and income tax (Note 10)	-	-	(1,362,819)	(1,362,819)
Net changes in fair value of available for sale investments	-	(2,492,664)	-	(2,492,664)
Balance as at December 31, 2017	250,000,000	(9,822,170)	(68,995,024)	171,182,806

Analysis of accumulated losses:

	Saudi shareholding 70.40%	Non-Saudi shareholding 29.60%	Total 100%
Balance as at January 01, 2016	(35,598,562)	(6,266,523)	(41,865,085)
Net loss for the year	(5,872,102)	(2,468,952)	(8,341,054)
Provision for zakat and income tax (Note 10)	(3,394,491)	(1,427,229)	(4,821,720)
Balance as at December 31, 2016	(44,865,155)	(10,162,704)	(55,027,859)
Net loss for the year	(8,873,460)	(3,730,886)	(12,604,346)
Provision for zakat and income tax (Note 10)	(1,322,240)	(40,579)	(1,362,819)
Balance as at December 31, 2017	(55,060,855)	(13,934,169)	(68,995,024)

The accompanying notes 1 to 22 form an integral part of these financial statements

AL WASATAH AL MALIAH COMPANY
(A Closed Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

1. ORGANIZATION AND ITS ACTIVITIES

Al Wasatah Al Maliah Company (Wasatah Capital), a Closed Joint Stock Company (the "Company") incorporated in the Kingdom of Saudi Arabia is registered under Commercial Registration No. 1010241832 dated 20 Thul Hijja 1428H (corresponding to 30 December 2007) in accordance with a licence No. 06033-35 dated 3 Sha'aban 1427H (corresponding to 27 August 2006) issued by the Capital Market Authority (CMA).

Major shareholders of the Company are as follows:

<u>Name of the shareholder</u>	<u>% holding</u>
Kenanga Investment Bank Berhad	29.60
Prince Saud Bin Fahad Bin Abdullah	10.00
Saleh AbdulAziz Al Rajhi Endowment Management	10.00
Al-Muwakaba for Industrial Dev. & Overseas Commerce	10.00
Others	40.40
	<u>100.00</u>

The Company's registered office is located at:
Al Olaya Street
P.O. Box 50315, Riyadh 11523
Kingdom of Saudi Arabia

The Company is engaged to deal as a principal and to provide underwriting, arranging, managing investment funds and custodian services.

2. BASIS OF PREPARATION

2.1 *Statement of Compliance*

The accompanying financial statements have been prepared in accordance with the generally accepted accounting standards applicable in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants.

Transition To International Financial Reporting Standards

Saudi Organization for Certified Public Accountants (SOCPA) has approved a plan for transition to International Financial Reporting Standards (IFRS). Accordingly, for the year ended December 31, 2018 the Company will prepare its financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia.

2.2 *Basis of Measurement*

These financial statements have been prepared under the historical cost convention, except for the measurement of available-for-sale investments at fair value, using the accrual basis of accounting and the going concern concept.

2.3 *Functional and presentation currency*

These financial statements are presented in Saudi Arabian Riyals (SR). All financial information presented has been rounded to the nearest SR.

2.4 *Critical accounting judgements, estimates and assumptions*

The preparation of financial statements in conformity with SOCPA requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used judgements, estimates and assumptions are as follows:

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

BASIS OF PREPARATION (continued)

Critical accounting judgements, estimates and assumptions (continued)

Impairment of available for-sale investments

The Company exercises judgement to consider impairment on the available-for-sale investments. This includes determination of a significant and prolonged decline in the fair value below its cost. In making this judgement, the Company evaluates among other factors, the normal volatility in price. In addition, the Company considers impairment 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.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Additionally, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

a) *Cash and cash equivalents*

For cash flow purposes, cash and cash equivalents comprise of cash in hand, cash with banks and murabaha deposits with an original maturity of three months or less from the date of acquisition.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Investments

i. Available-for-sale investments:

Investments which are not purchased for trading purposes and where the Company does not have any significant influence or control are classified as available for sale investments and subsequent to initial recognition, they are measured at fair value and changes therein other than impairment losses are recognized in “unrealized gain/ (loss) on available-for-sale investments” under the statement of changes in shareholders’ equity. Fair value is determined by reference to the market value in the open market if available. In the absence of an open market, the cost is considered to be the fair value of these investments. On de-recognition, any cumulative gain or loss previously recognized in equity is included in the statement of income as ‘realized gain from investment securities’. Losses arising from decline other than temporary in the fair value of securities below their cost, if any, are charged to the statement of income for the period in which the decline occurs.

ii. Held-to-maturity investments:

Investments having fixed or determinable payments and fixed maturity that the management has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognized at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for impairment in their value. Amortized cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognized in the statement of income when the investment is derecognized or impaired. On impairment, the difference between carrying cost and the present value of estimated future cash flows is included in the statement of income as impairment loss on held to maturity investments.

c) Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in the statement of income when incurred.

Any gain or loss arising on disposal of an item of property and equipment is recognized in statement of income.

The cost less estimated residual value is depreciated on straight-line basis over the following estimated useful lives of the assets:

Leasehold improvements	10 years
Furniture and office equipment	10 years
Computer hardware	3 – 5 years
Motor vehicles	5 year

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

d) Intangible assets, net

Intangible assets have a finite useful life and are stated at cost less accumulated amortization and impairment losses. Subsequent expenditures are capitalized only when it increases future economic benefits embodied in the specific asset to which it relates. Intangible assets are amortized over their estimated useful lives of five years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Payables and accruals

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

f) Provisions

Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

g) Employees' 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) Zakat

Zakat and income tax are provided for in the financial statements in accordance with Saudi General Authority of Zakat and Tax ("GAZT") laws and regulations. Zakat and income tax are charged to the statements of changes in shareholders' equity. Additional zakat and income tax liabilities, if any, related to prior years' assessments arising from GAZT are accounted for in the period in which the final assessments are finalized.

i) Revenue recognition

Revenue on transactions is recognized as follows:

- Advisory fee income is recognized based on milestones set under the contract for delivery of service.
- Income from Murabaha investments are recognized on an accrual basis.
- Dividend income is recognised when right to receive dividend is established.
- Realised gain on investment securities are recognized on disposal and calculated using average cost.
- Asset management fee is recognized based on the applicable service contracts.

j) Expenses

Marketing expenses are those arising from the Company's efforts underlying the marketing activities. All other non-operating expenses are classified as other operating expenses.

k) Impairment of assets

Financial assets (available for sale investments) are re-measured for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recovered. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which they are separately identifiable cash flows.

l) Offsetting

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognised amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Foreign currency translation

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the balance sheet date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

n) Assets held under fiduciary capacity

Assets held under fiduciary capacity are not treated as assets of the Company and accordingly are not included in the financial statements; these are treated as off-balance sheet items.

4. CASH AND CASH EQUIVALENTS

	As of December 31,	
	<u>2017</u>	<u>2016</u>
	<u>SR</u>	<u>SR</u>
Cash in hand	10,784	11,305
Cash at bank	8,339,155	6,112,545
Murabaha placement with a bank - original maturities of three months or less	45,000,000	34,000,000
	<u>53,349,939</u>	<u>40,123,850</u>

The effective commission rate on murabaha deposits as at December 31, 2017 is 1.85% per annum (2016: 3% per annum).

5. ACCRUED INCOME, PREPAYMENTS AND OTHER CURRENT ASSETS

	<u>2017</u>	<u>2016</u>
	<u>SR</u>	<u>SR</u>
Commission receivable on murabaha placements and held to maturity investments	167,881	437,987
Dividend receivable	165,400	248,100
Fee receivable from corporate finance clients	375,000	625,945
Fee receivable from asset management portfolio	810,176	560,499
Prepayments	327,657	466,667
Other current assets	151,856	162,018
	<u>1,997,970</u>	<u>2,501,216</u>

6. INVESTMENTS

		As of December 31,	
		<u>2017</u>	<u>2016</u>
	<u>Note</u>	<u>SR</u>	<u>SR</u>
Available-for-sale investments	6.1	105,449,940	115,821,254
Held-to-maturity investments	6.2	20,000,000	20,000,000
		<u>125,449,940</u>	<u>135,821,254</u>

AL WASATAH AL MALIAH COMPANY
(A Closed Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

6.1 Available-for-sale investments

Investments available for sale at December 31, comprise the following:

	<u>Note</u>	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
Cost		129,910,918	134,725,422
Impairment loss	6.1.1	(14,638,808)	(11,574,662)
Revised cost		115,272,110	123,150,760
Unrealized loss		(9,822,170)	(7,329,506)
Fair value		105,449,940	115,821,254

Available for sale investments represent the following:

	<u>Market value</u>		<u>Impaired cost</u>	
	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>	<u>2017</u> <u>SR</u>	<u>2016</u> <u>SR</u>
Qassim Cement Company	8,191,820	12,239,500	15,413,327	15,413,327
Arriyadh Development Company	10,636,200	11,602,500	13,528,325	12,569,944
Savola Group	9,513,141	9,664,908	12,811,911	12,811,911
Saudi Ground Services Co.	7,862,000	8,494,944	10,543,862	7,746,598
Saudi Basic Industries Corp.	8,971,600	8,051,120	8,430,563	8,430,564
Saudi International Petrochemical Company (SIPCHEM)	6,613,009	7,162,514	7,889,348	7,889,348
Saudi Pharmaceutical Industries	5,037,356	6,130,500	7,470,824	6,955,796
Yanbu Cement Company	5,749,400	6,885,000	6,885,000	11,582,789
Saudi Chemical Company	5,310,994	6,440,676	6,440,676	12,242,549
Advance Petrochemical Company	7,560,836	7,572,370	6,158,060	6,158,060
Etihad Etisalat Company	3,707,500	5,997,500	5,997,500	7,072,500
Alinma Bank	3,232,970	-	2,482,224	-
Lazurde Company for Jewelry	423,485	498,326	852,036	852,036
Wasatah IPO Fund	17,293,816	19,638,126	20,000,000	20,000,000
Wasatah Saudi Equity Fund	5,339,234	5,443,270	5,000,000	5,000,000
Mulkia Gulf Real Estate REIT	6,579	-	7,262	-
	105,449,940	115,821,254	129,910,918	134,725,422

6.1.1 Impairment loss

During the year, a significant and prolonged decline was noted in the market value of investments in certain securities. As a result, the company has written down the cost of these securities to their market value and recognized an impairment loss of SR 14,638,808 (2016: SR 11,574,662) in the income statement.

AL WASATAH AL MALIAH COMPANY
(A Closed Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

INVESTMENTS (continued)

6.2 Held-to-maturity investment:

Held-to-maturity investment represents the following:

	<u>Note</u>	As of December 31,	
		2017	2016
		<u>SR</u>	<u>SR</u>
Investment in Sukuk- Bank Al Jazira	6.2.1	<u>20,000,000</u>	<u>20,000,000</u>

6.2.1 This represents the amount invested in Bank Al Jazira Tier II sukuk having a profit rate of 6 months SIBOR plus 190 bps, maturing on 2 June 2026.

The investment is exposed to counter party credit risk (Bank Al Jazira).

As at year end, the Company has the ability and also intends to hold the said investment until the maturity of the Sukuk.

7. PROPERTY AND EQUIPMENT, NET

	Motor Vehicle <u>SR</u>	Furniture and Office Equipment <u>SR</u>	Computer Hardware <u>SR</u>	Leasehold Improvements <u>SR</u>	Total <u>SR</u>
<u>Cost:</u>					
As at January 1, 2017	107,500	303,507	533,902	164,080	1,108,989
Additions during the year	-	7,595	4,585	28,760	40,940
Disposals during the year	-	-	(3,699)	-	(3,699)
Balance at December 31, 2017	<u>107,500</u>	<u>311,102</u>	<u>534,788</u>	<u>192,840</u>	<u>1,146,230</u>
<u>Accumulated depreciation:</u>					
As at January 1, 2017	(82,418)	(160,826)	(478,505)	(46,410)	(768,159)
Depreciation for the year	(21,500)	(30,939)	(31,726)	(36,470)	(120,635)
Elimination on disposal	-	-	1,849	-	1,849
Balance at December 31, 2017	<u>(103,918)</u>	<u>(191,765)</u>	<u>(508,382)</u>	<u>(82,880)</u>	<u>(886,945)</u>
Net Book Value:					
As at December 31, 2017	<u>3,582</u>	<u>119,337</u>	<u>26,406</u>	<u>109,960</u>	<u>259,285</u>
As at December 31, 2016	<u>25,082</u>	<u>142,681</u>	<u>55,397</u>	<u>117,670</u>	<u>340,830</u>

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8. INTANGIBLE ASSETS, NET

	As of December 31,	
	2017	2016
	<u>SR</u>	<u>SR</u>
<u>Cost:</u>		
As at January 1,	68,895	68,895
Written-off during year	(43,020)	-
Balance at December 31,	<u>25,875</u>	<u>68,895</u>
<u>Accumulated amortization:</u>		
As at January 1,	(18,704)	(4,925)
Amortization charge for the year	(13,779)	(13,779)
Written-off during the year	21,271	-
Balance at December 31,	<u>(11,212)</u>	<u>(18,704)</u>
Net Book Value:		
As at December 31,	<u>14,663</u>	<u>50,191</u>

9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As of December 31,	
	2017	2016
	<u>SR</u>	<u>SR</u>
Provision for board and committee meeting allowances	471,000	335,000
Provision for audit and zakat advisor fee	342,250	286,750
Subscription fee	26,800	67,500
Employee costs	43,219	66,387
Other current liabilities	-	47,857
Utilities	38,000	32,234
	<u>921,269</u>	<u>835,728</u>

10. PROVISION FOR ZAKAT AND TAXATION

- a) The Company's Saudi shareholders are subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT") as applicable in the Kingdom of Saudi Arabia. Zakat amounting to SR 2.48 million for the year ended December 31, 2017 (December 31, 2016: SR 2.55 million) is charged to Saudi shareholders (70.40% of share capital) in the statement of changes in equity.

The Company's Non-Saudi shareholders are subject to taxation in accordance with the regulations of the GAZT as applicable in the Kingdom of Saudi Arabia. Taxation amounting to SR 0.04 million for the year ended December 31, 2017 (December 31, 2016: SR 0.23 million) is charged to Non-Saudi shareholders (29.60% of share capital) in the statement of changes in equity.

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PROVISION FOR ZAKAT AND TAXATION (continued)

The summary of main components and amount of zakat base is as follows:

	<u>As of December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>SR</u>	<u>SR</u>
i) Zakat charge:		
Adjusted net income	2,538,688	3,659,158
Shareholders' Equity	222,708,345	233,321,486
Provisions – net	2,071,253	5,877,057
Non- current Assets	(86,451,792)	(97,689,746)
Zakat base (total)	140,866,494	145,167,955
Saudi shareholders' share 70.4% (zakat base)	99,170,012	102,198,240
Zakat @ 2.5% on higher of zakat base or adjusted net income	2,479,250	2,554,956
b) Movement in provision for zakat and income tax		
Balance at January 01,	7,704,372	4,536,361
Less: Payments during the year	(2,146,455)	(1,653,709)
Add: Charge for the year – zakat	2,479,250	2,554,956
Charge for the year – income tax	40,579	234,954
Prior year charge / reversal of excess provision	(1,157,010)	2,031,810
	1,362,819	4,821,720
Balance at December 31,	6,920,736	7,704,372

c) Status of assessments

All zakat and income tax declarations up to the year ended December 31, 2016 have been submitted to the GAZT.

During the year 2011, The Company received assessment of Zakat and income tax assessment from GAZT for the year ended 31 December 2010 that resulted in additional Zakat liability SR 990,049 mainly due to disallowance of investments from zakat base of the Company.

During the year 2016, GAZT issued assessments for the year 2007 to 2013, which included a revised assessment for the year 2010 that resulted in an additional zakat and tax liability amounting to SR 11.9 million mainly due to the disallowance of certain expenses and investments from the zakat base of the Company.

Status of assessments (continued)

Management is of the view that the claim by GAZT is not justified and have appealed, and the case is under review by GAZT. The Company on a prudent basis has provided for an additional liability for Zakat with respect to the years 2007 to 2013 amounting to SR 4.4 million. Subsequent to the year end a bank guarantee of SR 4.4 million was submitted to the GAZT as required by the zakat and income tax laws of the Kingdom of Saudi Arabia.

The Company's Zakat and tax return for the year ended December 31, 2017 will due to be filed on or before 30 April 2018.

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11. EMPLOYEES' END OF SERVICE BENEFITS

	As of December 31,	
	2017	2016
	<u>SR</u>	<u>SR</u>
Balance brought forward	1,654,606	1,315,611
Provision for the year	418,251	396,908
Payments made during the year	(25,871)	(57,913)
Balance carried forward	<u>2,046,986</u>	<u>1,654,606</u>

12. SHARE CAPITAL

The Company's issued and fully paid up capital is SR 250,000,000 comprising 25,000,000 shares of SR 10 each (2016: SR 250,000,000).

13. STATUTORY RESERVE

In accordance with Company's Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income each year to a statutory reserve until such reserve equals 30% of its share capital. During the year the Company amended its articles of association to reduce this percentage from 50% of share capital as allowed under the applicable Company law. This reserve is not available for distributions to the shareholders. Due to brought forward accumulated losses, no amount has been transferred to the statutory reserve.

14. INCOME FROM ADVISORY SERVICES

	2017	2016
	<u>SR</u>	<u>SR</u>
Transaction fees	3,128,880	1,646,568
Retainer fees	1,959,375	3,055,500
	<u>5,088,255</u>	<u>4,702,068</u>

15. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Professional fees	780,724	675,004
Board meeting expenses	466,067	487,277
Other regulatory charges	-	340,000
Insurance expenses	322,450	328,995
Corporate finance expense	47,769	221,030
Travelling expenses	103,055	166,333
Repair and maintenance	104,400	118,813
Printing and stationery	43,055	85,337
Management fee	-	61,613
Bank charges	8,162	2,423
Intangible assets written off	21,749	-
Other expenses	266,348	267,297
	<u>2,163,779</u>	<u>2,754,122</u>

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16. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Company transacts business with the related parties which are undertaken at mutually agreed terms and approved by the management. Related party transactions details and balances are described as under:

<u>Related party details</u>	<u>Amount of transaction during the year</u>		<u>Closing balance Receivable / (Payable)</u>	
	<u>2017 SR</u>	<u>2016 SR</u>	<u>2017 SR</u>	<u>2016 SR</u>
Management fee charges				
<i>Kenanga Investment Bank Berhad</i>	-	61,613	-	-
<i>Meta Med Fund</i>	200,625	200,625	19,000	132,597
<i>Wasatah Food and Beverage fund</i>	410,904	289,653	11,630	-
<i>Wasatah IPO Fund</i>	1,053,071	1,899,575	250,511	347,634
<i>Wasatah Saudi Equity Fund</i>	218,861	147,814	54,467	80,269
<i>Wasatah Meta Health Fund</i>	271,257	-	138,628	-
<i>Wasatah Healthcare Fund</i>	300,499	-	300,699	-
<i>Directors</i>				
Meeting allowance / reimbursement of expenses	159,000	180,000	(471,000)	(335,000)
<i>Key Management Personnel</i>				
-Salaries and other benefits	4,171,225	3,935,363	-	-

17. LOSS PER SHARE

Operating loss per share for the year ended December 31, 2017 and year ended December 31, 2016 are calculated by dividing the net operating loss for the year by 25 million shares.

Net loss per share for the year ended December 31, 2017 and year ended December 31, 2016 are calculated by dividing the net loss for the year attributable to the equity holders by 25 million shares.

18. FIDUCIARY ASSETS

Assets under management:

These represent the mutual funds' assets and investments managed by the Company on behalf of its customers, which amount to SR **1,420,413,301** as at 31 December 2017 (31 December 2016: SR 380,333,694). Consistent with the Company's accounting policy, such balances are not included in the Company's financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

19. REGULATORY REQUIREMENTS AND CAPITAL ADEQUACY RATIO

The Capital Market Authority (the “CMA”) has issued Prudential Rules (the “Rules”) dated December 30, 2012G (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.

In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

	2017	2016
	<u>SR</u>	<u>SR</u>
<i>Capital Base:</i>		
Tier I Capital	171,168,143	187,592,444
Tier II Capital	-	-
Total Capital Base	<u>171,168,143</u>	<u>187,592,444</u>
<i>Minimum Capital Requirement:</i>		
Market Risk	-	-
Credit Risk	35,572,673	38,726,815
Operational Risk	7,089,082	7,393,653
Total Minimum Capital Required	<u>42,661,755</u>	<u>46,120,468</u>
<i>Capital Adequacy Ratio:</i>		
Surplus in Capital	<u>128,506,387</u>	<u>141,471,976</u>
Total Capital Ratio (times)	<u>4.01</u>	<u>4.07</u>

a) Capital Base of the Company comprise of:

- **Tier-I capital** consists of paid-up share capital, retained earnings, reserves excluding revaluation reserves, with certain deductions as per the Rules.
- **Tier-II capital** consists of revaluation reserves with certain deductions as per the Rules.
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.

**NOTES TO THE FINANCIAL STATEMENTS
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20. CONTINGENCIES AND COMMITMENTS

Contingencies

As disclosed in note 10 above, the Company has recorded SR 4.4 million upto December 31, 2017 as provision for prior year zakat assessments against the original demand of SR 11.9 million by GAZT. No provision has been made in these financial statements for the remaining demand of SR 7.5 million by GAZT as it is dependent on future developments of the case which is pending with tax authorities.

Commitments

The Company has operating leases for office space. The lease is for an initial period of five years. Rental expense for the year ended December 31, 2017 amounting to SR 507,600 (2016: SR 507,600), is included in the statement of income.

At December 31, the Company's commitments under non-cancellable operating leases are as follows:

	2017	2016
	<u>SR</u>	<u>SR</u>
Within one year	487,860	507,600
Between two and five years	-	507,600
Total	<u>487,860</u>	<u>1,015,200</u>

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of financial instruments

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. Financial assets of the Company include balances with banks, commission receivable on Murabaha placements and held to maturity investments, fee receivable, available-for-sale investments, held-to-maturity investments and other current assets and financial liabilities include accrued expenses and certain current liabilities.

As the accompanying financial statements are prepared under the historical cost method, except for revaluation of available-for-sale investments which are carried at fair values, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

Credit Risk

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. Balances with banks, Murabaha placements and commission receivable thereon, fee receivable, and held-to-maturity investments are the significant class of financial assets that carry credit risk. Balances with banks, Murabaha placements, and held-to-maturity investments are placed with different banks having good credit rating and, hence, the credit risk is limited. Fee receivables are mainly due from local customers and funds under management and are stated at their estimated realizable values.

Market risk

Market risk is the risk that the fair value or future cash flows of the financial instruments may fluctuate due to changes in market variables such as special commission rates, equity prices, and currency risk.

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FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Special commission rate risk

Special commission rate risk arises from the possibility that the changes in commission rates may affect either the fair values or the future cash flows of the financial instruments. The Company's investment in Sukuk has variable rate of return linked to SIBOR while Murabaha placements are not significantly affected by changes in commission rate risk due to short term maturity period.

Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of changes in the levels of equity indices and the value of individual stocks. The Company is exposed to equity price risk arising from its investments in shares.

The Company has established risk guidelines to minimize the risk through diversification of its investment portfolio in terms of industrial concentration.

Currency risk

Currency risk is the risk that the value of a financial instrument may fluctuate due to change in foreign currency exchange rates. The Company's transactions are principally in Saudi Arabian Riyals and exposures in non-functional currencies other than US Dollars are not significant. The rate of exchange for conversion of the Saudi Riyal to the US Dollar is pegged and therefore the Company is not exposed to currency risk on US dollar based transactions. The Company closely monitors the foreign exchange rate fluctuations in order to manage the risk.

Liquidity risk

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. Financial assets of the Company as at year-end mainly include cash, balances with banks, Murabaha placements, and available for sale investments, which can be utilised to meet changing liquidity requirements.

Liquidity risk is managed by monitoring on a regular basis to ensure that sufficient funds are available to meet the Company's future commitments.

22. FINANCIAL STATEMENTS APPROVAL

These financial statements were approved by the Board of Directors on 13 Jumada II' 1439 (H), corresponding to 1 March 2018 (G).
