

**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**FINANCIAL STATEMENTS**  
For the year ended December 31, 2015  
with  
**INDEPENDENT AUDITORS' REPORT**



**KPMG Al Fozan & Partners**  
Certified Public Accountants  
Zahran Business Centre, Tower A, 9th Floor  
Prince Sultan Street  
PO Box 55078  
Jeddah 21534  
Kingdom of Saudi Arabia

Telephone +966 12 698 9595  
Fax +966 12 698 9494  
Internet [www.kpmg.com.sa](http://www.kpmg.com.sa)  
License No. 46/11/323 issued 11/3/1992

## INDEPENDENT AUDITORS' REPORT

The Shareholders  
BMG Financial Group  
(A Closed Joint Stock Company)  
Jeddah, Kingdom of Saudi Arabia.

We have audited the accompanying financial statements of BMG Financial Group ("the Company") which comprise the balance sheet as at December 31, 2015 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes 1 through 17 which form an integral part of these 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 the Company's Articles of Association 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



### **Opinion**

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

- 1) present fairly, in all material respects, the financial position of BMG Financial Group as at December 31, 2015, and the results of its 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 Articles of Association with respect to the preparation and presentation of financial statements.

### **Emphasis of matter**

We draw attention to note 1 to the financial statements, which describes that the Company's Saudi Arabian General Investment Authority ("SAGIA") license expired on Shawwal 29, 1432 (corresponding to September 27, 2011). The Company was issued Capital Market Authority's (CMAs) license and Commercial Registration (CR) based on its SAGIA license therefore, the expiry of SAGIA license may also impact the validity of Company's CR and CMA license. The Company's management has initiated the renewal process and is confident that the SAGIA license will be renewed in due course.

**For KPMG Al Fozan & Partners**

Ebrahim Oboud Baeshen  
License No. 382



Jumada Al Thani 21, 1437H  
Corresponding to March 30, 2016

**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**BALANCE SHEET**

As at December 31, 2015

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	14,879	193,444
Trade receivables	5	1,764,580	1,801,050
Due from related parties	14	672,368	372,368
Prepayments and other current assets	6	125,338	120,239
<b>Total current assets</b>		<b>2,577,165</b>	<b>2,487,101</b>
<b>Non-current assets:</b>			
Property and equipment	7	442,868	570,526
<b>Total assets</b>		<b>3,020,033</b>	<b>3,057,627</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
<b>Current liabilities:</b>			
Accounts payable		131,439	286,924
Accrued expenses and other current liabilities	8	340,688	392,727
<b>Total current liabilities</b>		<b>472,127</b>	<b>679,651</b>
<b>Non-current liabilities:</b>			
Employees' end of service benefits	9	193,957	136,163
<b>Total liabilities</b>		<b>666,084</b>	<b>815,814</b>
<b><u>SHAREHOLDERS' EQUITY</u></b>			
Share capital	10	5,000,000	5,000,000
Additional paid-in-capital	11	--	1,227,448
Accumulated losses	2(e)	(2,646,051)	(3,985,635)
<b>Total shareholders' equity</b>		<b>2,353,949</b>	<b>2,241,813</b>
<b>Total liabilities and shareholders' equity</b>		<b>3,020,033</b>	<b>3,057,627</b>

The accompanying notes 1 to 17 form  
an integral part of these financial statements.

**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**STATEMENT OF INCOME**  
For the year ended December 31, 2015  
(Expressed in Saudi Arabian Riyals)

---

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Revenue		1,948,300	2,092,465
Operating expenses	12	<u>(3,399,687)</u>	<u>(3,146,892)</u>
<b>Operating loss</b>		<b>(1,451,387)</b>	<b>(1,054,427)</b>
Other income		<u>1,250</u>	<u>23,164</u>
<b>Net loss</b>		<b><u>(1,450,137)</u></b>	<b><u>(1,031,263)</u></b>

The accompanying notes 1 to 17 form  
an integral part of these financial statements.

**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2015  
(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>			
Net loss		(1,450,137)	(1,031,263)
<i>Adjustment to reconcile net loss to net cash used in operating activities:</i>			
Depreciation	7	157,042	138,940
Provision for doubtful debts	5	940,867	939,763
Provision for employees' end of service benefits	9	124,794	49,101
		<u>(227,434)</u>	<u>96,541</u>
<b>Changes in operating assets and liabilities:</b>			
Trade receivables		(904,397)	140,059
Due from related parties		(300,000)	(200,000)
Prepayments and other current assets		(5,099)	(23,049)
Due to related parties		--	(23,164)
Trade payables		(155,485)	(839,636)
Accrued expenses and other current liabilities		(99,533)	251,843
		<u>(1,691,948)</u>	<u>(597,406)</u>
Employees' end of service benefits paid	9	(67,000)	(69,710)
<b>Net cash used in operating activities</b>		<u>(1,758,948)</u>	<u>(667,116)</u>
<b>Cash flows from investing activities:</b>			
Additions to property and equipment	7	(29,384)	(384,829)
<b>Cash flows from financing activities:</b>			
Additional paid-in-capital		1,609,767	1,227,448
Net movement in cash and cash equivalents		(178,565)	175,503
Cash and cash equivalents at January 1	4	193,444	17,941
<b>Cash and cash equivalents at December 31</b>	4	<u>14,879</u>	<u>193,444</u>
<b>Non-cash transactions:</b>			
Absorption of losses	2&11	(2,837,215)	--

The accompanying notes 1 to 17 form  
an integral part of these financial statements.

**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

	<u>Share capital</u>	<u>Additional paid-in- capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at January 1, 2014	5,000,000	--	(2,922,127)	2,077,873
Net loss	--	--	(1,031,263)	(1,031,263)
Additional paid-in capital	--	1,227,448	--	1,227,448
Zakat and income tax charge for the year (note 13)	--	--	(32,245)	(32,245)
Balance at December 31, 2014	5,000,000	1,227,448	(3,985,635)	2,241,813
Net loss	--	--	(1,450,137)	(1,450,137)
Additional paid-in capital	--	1,609,767	--	1,609,767
Losses absorbed by shareholders (note 2 & 11)	--	(2,837,215)	2,837,215	--
Zakat and income tax charge for the year (note 13)	--	--	(47,494)	(47,494)
<b>Balance at December 31, 2015</b>	<b>5,000,000</b>	<b>--</b>	<b>(2,646,051)</b>	<b>2,353,949</b>

The accompanying notes 1 to 17 form  
an integral part of these financial statements.

**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

---

**1. ORGANIZATION AND ACTIVITIES**

BMG Financial Group ("the Company") a Saudi closed joint stock company formed under the Regulation for Companies in the Kingdom of Saudi Arabia under Commercial Registration No. 1010256000 on Ramadan 7, 1429H (September 7, 2008).

The Company obtained its Saudi Arabian General Investment Authority ("SAGIA") license No.1052/2 dated Shaban 8, 1429H (August 10, 2008), which has expired on Shawwal 29, 1432 (corresponding to September 27, 2011).

The Capital Market Authority ("CMA") issued License No. 07054-37 dated Safar 21, 1428H (March 11, 2007) as amended by CMA's Decision No. 2008225 on Jumada Al Thani 19, 1429H (June 23, 2008) based on SAGIA License No. 1052/2 dated Shaban 8, 1429H (August 10, 2008) and the Registrations for Companies issued by Royal Decree No. M/6 dated Rabi Al Awal 22, 1385H (July 22, 1965).

SAGIA license expired on Shawwal 29, 1432 (corresponding to September 27, 2011). The Company's CMA license and CR were issued based on its SAGIA license therefore, the expiry of SAGIA license may also impact the validity of Company's CR and CMA license. The Company's management has initiated the renewal process and is confident that the SAGIA license will be renewed in due course.

The principal activities of the Company are to arranging and rendering financial advisory services.

The Company's registered office is located at:

Al Mukmal Plaza,  
Palestine Street,  
Al Hamra District,  
P. O. Box 52972, Jeddah 21573,  
Kingdom of Saudi Arabia

**2. BASIS OF PREPARATION**

**a) Statement of compliance**

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

**b) Basis of measurement**

The financial statements have been prepared under the historical cost basis, using the accrual basis of accounting and the going concern concept.



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

---

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

**c) Functional and presentation currency**

These financial statements have been presented in Saudi Arabian Riyals (SR), which is the functional 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.

**i) Impairment of trade receivables**

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the agreement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators of objective evidence that the trade receivables 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.

**ii) Useful lives of property and equipment**

The management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

**iii) Impairment of property and equipment**

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable in part or full. Whenever the carrying amount of these assets exceeds their recoverable amount, an impairment loss is recognised in the statement of income. The recoverable amount is the higher of an asset's net selling price and the value in use. The net selling price is the amount obtained from the sale of an asset in an arm's length transaction while value in use is present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

---

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

**d) Use of estimates and judgments (continued)**

*iv) Impairment of non-financial assets*

The Company assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset (including assets classified as held for disposal) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or groups. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations.

**e) Going concern**

During the year ended December 31, 2015, the Company has incurred a loss amounting to approximately SR 1.4 million. and accumulated losses of the Company amounted to approximately SR 2.6 million. The continuation of the Company's operations is dependent upon its future profitable operations and continued financial support from the shareholders. The shareholders of the Company have resolved to provide financial support as and when necessary and decided to continue the business in the foreseeable future. Furthermore, the shareholders have resolved on December 30, 2015 to absorb the losses of the Company amounting to SR 2.8 million by adjusting additional paid-in-capital balance. Accordingly, these financial statements have been prepared on a going concern basis.

**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

---

**3. SUMMARY OF 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) Cash and cash equivalents**

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

**b) Trade receivables**

Trade receivables are stated at original invoice amount less provisions made for amounts, which in the opinion of the management may not be received. Bad debts are written off when identified.

**c) Property and equipment**

Property and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss, if any. 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 property and equipment will be depreciated using following annual rates of depreciation:

Office equipment	10 – 15%
Furniture and fixtures	10%
Leasehold improvements	10%
Vehicles	20%

**d) Accrued expenses and other current liabilities**

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

**e) Provisions**

Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be measured reliably.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

---

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

**f) Employees' end of service benefits**

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

**g) Revenue recognition**

Revenue is recognized to the extent of the following recognition requirements:

- it is probable that the economic benefits will flow to the Company
- it can be reliably measured, regardless of when the payment is being made
- the cost incurred to date and expected future costs are identifiable and can be measured reliably

Revenue is measured at the fair value of the consideration received or the contractually defined terms of payment. The specific recognition criteria described below must also be met before the revenue is recognized.

*Fees and commissions*

Fees and commissions are recognized on an accrual basis when the service has been provided.

*Retainer fee*

Retainer fee, which is fixed at inception, is recognized over the period when the service is being provided.

*Success fee*

Success fees are recognized when the deal is finalized with the client and the right to receive the success fee is established.

**h) Operating expenses**

Operating expenses include direct and indirect costs incurred.

**i) Zakat and income tax**

Zakat and income tax, computed in accordance with the Saudi Arabian fiscal regulations, are accrued and charged to retained earnings. Since the shareholders have agreed to reimburse Zakat and income tax from the proceeds of the future dividend, such amount receivable from the shareholders are credited to retained earnings.

**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

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

**j) Operating leases**

Payments under operating leases are recognized in the statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

**k) 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 recognized amounts and when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under accounting standards generally accepted in the Kingdom of Saudi Arabia, or for gains and losses arising from a group of similar transactions.

**l) 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 currency at the balance sheet date are translated to the functional currency of the Company at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the statement of income currently.

**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at 31 December comprise the following:

	<u>2015</u>	<u>2014</u>
Cash in hand	13,576	600
Cash at bank – current accounts	1,303	192,844
	<u>14,879</u>	<u>193,444</u>

**5. TRADE RECEIVABLES**

Trade receivables at 31 December comprise the following:

	<u>2015</u>	<u>2014</u>
Trade receivables	3,935,755	3,031,358
Provision for doubtful debts (note "a" below)	(2,171,175)	(1,230,308)
	<u>1,764,580</u>	<u>1,801,050</u>

**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

**5. TRADE RECEIVABLES (continued)**

a) Movement for provision for doubtful debts is as under:

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	1,230,308	306,403
Provision made during the year (note 12)	940,867	939,763
Bad debts written-off	--	(15,858)
	<u>2,171,175</u>	<u>1,230,308</u>

**6. PREPAYMENTS AND OTHER CURRENT ASSETS**

Prepayments and other current assets at 31 December comprise the following:

	<u>2015</u>	<u>2014</u>
Prepayments	104,462	92,741
Employee advances	20,876	27,498
	<u>125,338</u>	<u>120,239</u>

**7. PROPERTY AND EQUIPMENT**

The movement in property and equipment during the year ended December 31, 2015 is analyzed as under:

	<u>Office equipment</u>	<u>Furniture &amp; fixtures</u>	<u>Leasehold improvements</u>	<u>Vehicles</u>	<u>Total</u>
<b><u>Cost:</u></b>					
At beginning of the year	869,998	237,806	402,930	799,540	2,310,274
Additions during the year	29,384	--	--	--	29,384
Balance at the end of the year	<u>899,382</u>	<u>237,806</u>	<u>402,930</u>	<u>799,540</u>	<u>2,339,658</u>
<b><u>Accumulated depreciation:</u></b>					
At beginning of the year	733,802	217,705	233,619	554,622	1,739,748
Charge for the year	57,303	5,011	17,293	77,435	157,042
Balance at the end of the year	<u>791,105</u>	<u>222,716</u>	<u>250,912</u>	<u>632,057</u>	<u>1,896,790</u>
<b><u>Net book value:</u></b>					
<b>December 31, 2015</b>	<u>108,277</u>	<u>15,090</u>	<u>152,018</u>	<u>167,483</u>	<u>442,868</u>
December 31, 2014	<u>136,196</u>	<u>20,101</u>	<u>169,311</u>	<u>244,918</u>	<u>570,526</u>

**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

**8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities at 31 December comprise of the following:

	<u>2015</u>	<u>2014</u>
Accrued expenses	209,991	361,040
Other liabilities	130,697	31,687
	<u>340,688</u>	<u>392,727</u>

**9. EMPLOYEES' END OF SERVICE BENEFITS**

The movement summary for the year ended December are as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	136,163	156,772
Provision for the year	124,794	49,101
Payments during the year	(67,000)	(69,710)
	<u>193,957</u>	<u>136,163</u>

**10. SHARE CAPITAL**

At 31 December 2015, the share capital of the Company was SR 5,000,000 (2014: SR 5,000,000) divided into 500,000 shares (2014: 500,000 shares) of SR 10 each, which are fully paid and owned as follows:

<u>Name</u>	<u>Nationality</u>	<u>Ownership</u>	<u>Saudi Riyals</u>
Mr. Mohammed Basil M. Al-Ghalayini	Saudi	37.8%	1,890,000
Mr. Mohammed YoussefM. Naghi	Saudi	2.6%	130,000
Mr. Khalifa Abdul Mohsen M. Al Saif	Saudi	1.0%	50,000
Mr. Abdul-Hadi Ali Saif Shayef	Saudi	1.2%	60,000
Mr. Waleed Soliman Abdul Mohsen Aba Numay	Saudi	1.2%	60,000
International Shores for Commercial Services	Saudi	21.0%	1,050,000
Mr. Abdul-Aziz Ibrahim M. Al-Nabhan	Kuwaiti	5.2%	260,000
Beltone Financial Holding S.A.E	Egyptian	30.0%	1,500,000
		<u>100%</u>	<u>5,000,000</u>

**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

**11. ADDITIONAL PAID-IN-CAPITAL**

At December 30, 2015, Mr. Mohammed Basil M. Al-Ghalayini (Shareholder) converted a further payable of SR 1,609,767 (2014: SR 1,227,448) as an additional capital to the Company to support the Company's operations. At December 30, 2015, the balance of additional paid-in-capital of SR 2,837,215 was fully utilized against absorption of Company's accumulated losses (refer note 2(e)).

**12. OPERATING EXPENSES**

	<u>2015</u>	<u>2014</u>
Salaries and wages	1,498,336	822,810
Provision for doubtful debts (note 5)	940,867	939,763
Professional fees	94,838	283,615
Rent (note 15)	246,704	233,192
Traveling	125,541	174,495
Depreciation (note 7)	157,042	138,940
Communication	109,876	85,765
Membership fees	58,750	63,250
Vehicle expenses	43,641	43,743
Office expenses	48,063	38,274
Repairs and maintenance	33,479	22,455
Training and recruitment	--	5,288
Others	42,550	295,302
	<u>3,399,687</u>	<u>3,146,892</u>

**13. ZAKAT AND INCOME TAX**

**a) Charge for the year**

i) Zakat and income tax charge for the year ended 31 December comprises the following:

	<u>2015</u>			<u>2014</u>		
	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>
Charge for the year	<u>47,494</u>	<u>--</u>	<u>47,494</u>	<u>32,245</u>	<u>--</u>	<u>32,245</u>



**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

**13. ZAKAT AND INCOME TAX (continued)**

**a) Charge for the year (continued)**

ii) The significant components of Zakat base for the current year ended 31 December are as follow:

	<u>2015</u>	<u>2014</u>
Capital	4,359,214	3,500,000
Adjusted net loss	(513,192)	(337,373)
Adjusted equity and provision at beginning of year	909,630	264,325
Deduction for property, plant and equipment	<u>(2,855,893)</u>	<u>(2,137,163)</u>
	<u>1,899,759</u>	<u>1,289,789</u>

**b) Accrued Zakat and income tax**

The movement in accrued zakat and income tax during the year ended 31 December is as follows:

	<u>2015</u>			<u>2014</u>		
	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>
Balance at beginning of the year	(92,005)	55,324	(36,681)	(124,250)	55,324	(68,926)
Add: Charge for the year	<u>47,494</u>	<u>--</u>	<u>47,494</u>	<u>32,245</u>	<u>--</u>	<u>32,245</u>
Balance at end of the year	<u>(44,511)</u>	<u>55,324</u>	<u>10,813</u>	<u>(92,005)</u>	<u>55,324</u>	<u>(36,681)</u>

**c) Status of assessments**

The tax returns for the years 2009 to 2014 are currently under review by the Department of Zakat and Income Tax (DZIT). The tax return for the year 2014 has been filed with DZIT.

**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015  
(Expressed in Saudi Arabian Riyals)

**14. RELATED PARTY TRANSACTIONS AND BALANCES**

- a) Related parties include the Company's shareholders and their relatives up to the fourth generation, associated and affiliated companies and directors and key management personnel of the Company. Terms and conditions of these transactions are approved by the Company's management.
- b) In addition to note 11 significant related parties transactions for the year ended December 31 and balances arising-there from are described as under:

**Due from related parties**

<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>
BMG Financial Advisory	Affiliate	Advisory service	300,000	200,000	500,000	200,000
International Shores for Commercial Services	Shareholder	Advisory services	--	--	<u>172,368</u>	<u>172,368</u>
					<u>672,368</u>	<u>372,368</u>

**15. OPERATING LEASE ARRANGEMENTS**

	<u>2015</u>	<u>2014</u>
Payments under operating leases recognized as an expense during the year	<u>246,704</u>	<u>233,192</u>

Operating lease payments mainly represent rentals payable by the Company for offices, the commitments for which will expire within one year.

**16. FINANCIAL INSTRUMENT AND RISK MANAGEMENT**

Financial instruments carried on the balance sheet include cash and cash equivalents, trade and other accounts receivable, accounts payable and other liabilities.

**Credit risk** is the risk that one party will 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 national and international banks with sound credit ratings. Trade and other accounts receivable are mainly due from local customers and related parties and are stated at their estimated realizable values.

**BMG FINANCIAL GROUP**  
(A Closed Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2015

(Expressed in Saudi Arabian Riyals)

---

**16. FINANCIAL INSTRUMENT AND RISK MANAGEMENT (continued)**

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

**Liquidity risk** is the risk that an enterprise will 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 will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and United States Dollars. Other transactions in foreign currencies are not material. Currency risk is managed on regular basis.

**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. As the accompanying financial statements are prepared under the historical cost method, 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.

**17. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements have been approved by the Board of Directors on Jumada Al Thani 21, 1437H, corresponding to March 30, 2016.