

BMG FINANCIAL GROUP COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2020

BMG FINANCIAL GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Financial statements for the year ended December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDER
BMG FINANCIAL GROUP COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
JEDDAH- SAUDI ARABIA**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**Qualified opinion**

We have audited the accompanying financial statements of "BMG Financial Group" - "The Company", which comprise the statement of financial position as at December 31, 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes 1 to 22 thereon, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matters stated in Basis of Qualified Opinion of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2020, and its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standard (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for certified Public Accountants (SOCPA).

Basis for qualified opinion

- Due from related parties include receivables from the shareholders against services provided to them SR 936,948. These receivables are outstanding since a long period of time and not confirmed by the shareholders. The Company has not considered any probable impairment loss against these receivables (Refer to Note 17.1).

We conducted our audit in accordance with International Standards on Auditing ("ISAs") adopted in 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 professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements in 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 qualified opinion.

Material Uncertainty Related to Going Concern

As disclosed in note 2 to the financial statements, which indicates the accumulated losses to the company amounts to SR 4,757,267, exceeds 50% of the share capital (SR 5,000,000) of the company. These condition indicates material uncertainty exist that may cast significant doubt on the Company's ability to continue as going concern. Our opinion is not modified in respect of this matter.

Emphasis of matters

We draw attention to Note (21) to the financial statements, regarding the subsequent events, and our opinion has not been modified in this respect.

INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDER
BMG FINANCIAL GROUP COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
JEDDAH- SAUDI ARABIA**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**Responsibilities of Management and those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with in accordance with the International Financial Reporting Standards (IFRSs) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA), the Companies' Act Provisions 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.

Upon preparation of 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 choice of an appropriate alternative but to do so.

Those charged with governance and the Board of Directors 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 ISAs adopted in 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 ISAs approved in Saudi Arabia, we exercise professional judgment and maintain professional scepticism 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 is sufficient and appropriate to provide a basis for our audit 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.

INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDER
BMG FINANCIAL GROUP COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
JEDDAH- SAUDI ARABIA**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**Auditors' Responsibilities for the Audit of the Financial Statements (Continued)**

- 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.

Report on Other Legal and Regulatory Requirements

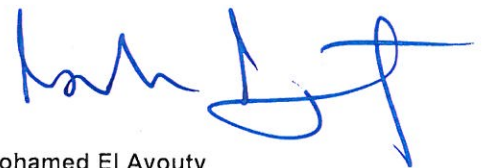
- As mentioned in note 1.2, the Capital Market Authority ("CMA") issued License No. 07054-37 dated Safar 21, 1428H (March 11, 2007) as amended by CMA's Decision No. 2008225 on Jumada Al Thani 19, 1429H (June 23, 2008) have been expired on Dhul Qadah 9, 1441 H (June 30, 2020).
- As mentioned note 1.3, the Company's Saudi Arabian General Investment Authority (SAGIA) license has been expired on Shawwal 29, 1432H (corresponding to September 27, 2011).
- As mentioned in note 1.4. and 11, during the year ended December 31, 2016, the Company has entered into an agreement with its shareholder dated 13 Rajab 1437H, corresponding to 20 April 2016, wherein, Beltone Financial Holding S.A.E (Egyptian Partner) has transferred all of its shares to a local shareholder. The legal process of transferring foreign shareholding to the local shareholder has not been completed as at 31 December 2020.
- The new Regulations for Companies Act were issued on Rajab 25, 1437H (corresponding to May 02, 2016) and effective as of April 20, 2017. The legal formalities for amending Company's Articles of Association to align with the provisions of new Regulations have not been completed as on December 31, 2020 (Refer Note 1.5).
- The cash and cash equivalent (note 10) includes the bank balance of SR 153,701 (2019: SR 153,701). The Company's bank account is blocked due to the expiry of its legal licenses as mentioned in note 1.

INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDER
BMG FINANCIAL GROUP COMPANY
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JEDDAH- SAUDI ARABIA**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**Report on Other Legal and Regulatory Requirements (Continued)**

- The Company has calculated and filed its zakat and income tax returns for the prior and current years on the basis of status of the company as a 100% Saudi company. Whereas, GAZT record shows the registration status of the Company as a 100% foreign company. Therefore, the final zakat and income tax liability is subject to the updation and approval of legal status of the company with the GAZT as a 100% Saudi Company (Refer Note 16.3).
- Refer to note 2, the management didn't comply with Article 150 of the Companies Law concerning accumulated losses exceeding 50% of the share capital. However, subsequent to the year end (refer note 21.2), dated March 30, 2021, the Company has passed a resolution to support the Company by increasing its share capital by issuing 300,000 shares amounting to SR 3 Million. The Company has not yet submitted stated resolution for CMA approval. Moreover, the said resolution is not yet published as required by the Article 158 of the Regulations for Companies.

FOR EL SAYED EL AYOUTY & CO.

**Mohamed El Ayouty
Certified Public Accountant
License No. (211)**

Jeddah: March 30, 2021
Sha'ban 17, 1442H.



BMG FINANCIAL GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Statement of financial position

(All amounts in Saudi Riyals unless otherwise stated)

		As at December 31,	
	Notes	2020	2019
Assets			
Non-current assets			
Property and equipment, net	7	93,683	130,095
Total non-current assets		<u>93,683</u>	<u>130,095</u>
Current assets			
Trade receivables	8	584,066	1,037,846
Due from related parties	17.1	1,811,948	1,811,948
Prepayments and other receivables	9	104,704	41,598
Cash and cash equivalents	10	155,786	153,701
Total current assets		<u>2,656,504</u>	<u>3,045,093</u>
Total assets		<u>2,750,187</u>	<u>3,175,188</u>
Equity and liabilities			
Equity			
Share capital	11	5,000,000	5,000,000
Accumulated losses		(4,781,894)	(5,327,595)
Statutory reserve		24,627	-
Total equity		<u>242,733</u>	<u>(327,595)</u>
Non-current liabilities			
Employees defined benefit obligations	13.1	375,344	695,685
Total non-current liabilities		<u>375,344</u>	<u>695,685</u>
Current liabilities			
Due to related parties	17.1	651,026	1,475,746
Deferred income	14	390,670	390,670
Accounts payable and accruals	15	826,883	683,465
Zakat payable	16.3	263,531	257,217
Total current liabilities		<u>2,132,110</u>	<u>2,807,098</u>
Total liabilities		<u>2,507,454</u>	<u>3,502,783</u>
Total equity and liabilities		<u>2,750,187</u>	<u>3,175,188</u>

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

BMG FINANCIAL GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Statement of Comprehensive Income

(All amounts in Saudi Riyals unless otherwise stated)

		For the year ended December 31,	
	Notes	2020	2019
Revenue		1,935,922	995,126
Operating expenses			
General and administrative expenses	18	(1,694,187)	(2,545,155)
Provision for employee defined benefit obligations	13.2	(62,053)	(136,970)
Total operating expenses		(1,756,240)	(2,682,125)
Profit / (loss) from operations		179,682	(1,686,999)
Other income		72,900	52,272
Net income / (loss) for the year before zakat and income tax		252,582	(1,634,727)
Zakat and income tax	16.1 & 21	(6,314)	(7,491)
Net income / (loss) for the year		246,268	(1,642,218)
Other comprehensive income / (loss):			
Items not to be reclassified subsequently to profit or loss:			
Loss on re-measurement of employees defined benefit obligations	13.3	324,060	(132,605)
Total comprehensive income / (loss) for the year		570,328	(1,774,823)
Loss per share:			
Number of shares	11	500,000	500,000
Net income / (loss) per share		1.14	(3.55)

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

BMG FINANCIAL GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Statement of changes in equity

(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Accumulated losses	Total equity
As at December 31, 2018	5,000,000	-	(3,552,772)	1,447,228
Net loss for the year	-	-	(1,642,218)	(1,642,218)
Other comprehensive loss	-	-	(132,605)	(132,605)
As at December 31, 2019	5,000,000		(5,327,595)	(327,595)
Net income for the year	-	-	246,268	246,248
Total comprehensive gain for the year	-	-	324,060	324,060
Transferred to statutory reserve	-	24,627	(24,627)	-
As at December 31, 2020	5,000,000	24,627	(4,781,894)	242,733

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

BMG FINANCIAL GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Statement of cash flows

(All amounts in Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31,	
		2020	2019
Operating activities			
Net loss for the year before zakat and income tax		252,582	(1,634,727)
Adjustments to reconcile net loss to net cash			
Provided by operating activities:			
Depreciation	7	42,470	54,523
Gain on disposal of property and equipment		-	(3,620)
Provision for staff indemnities	13.2	62,053	136,970
		<u>357,105</u>	<u>(1,446,854)</u>
Changes in operating assets and liabilities			
Trade receivables		453,780	205,508
Prepayments and other receivables		(63,106)	109,871
Deferred income		-	(150,000)
Accounts payable and accruals		143,418	264,066
Staff indemnities paid	13.1	(58,334)	(92,326)
Net cash provided by / (used in) operating activities		<u>832,863</u>	<u>(1,109,735)</u>
Investing activities			
Addition to property and equipment	7	(6,058)	-
Proceeds from disposal of property and equipment		-	14,600
Net cash (used in) / provided by investing activities		<u>(6,058)</u>	<u>14,600</u>
Financing activities			
Net funds (paid) / provided by shareholder		(824,720)	1,154,269
Net cash (used in) / provided by financing activities		<u>(824,720)</u>	<u>1,154,269</u>
Net decrease in cash and cash equivalents		2,085	59,134
Cash and cash equivalents at beginning of the year		153,701	94,567
Cash and cash equivalents at the end of the year		<u>155,786</u>	<u>153,701</u>

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

BMG FINANCIAL GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the financial statements for the year ended December 31, 2020

(All amounts in Saudi Riyals unless otherwise stated)

1. General

- 1.1. BMG Financial Group ("the Company") a Saudi closed joint stock company formed under the Regulation for Companies in the Kingdom of Saudi Arabia with Commercial Registration No. 1010256000 on Ramadan 7, 1429H (September 7, 2008) registered in Riyadh, expired on Ramadan 7, 1443 (corresponding to April 09, 2022).
- 1.2. 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) having expiry till Dhul Qadah 9, 1441 H (June 30, 2020).
- 1.3. The Company obtained its Saudi Arabian General Investment Authority ("SAGIA") license No. 1052/2 dated Shaban 8, 1429 H (August 10, 2008), which has expired on Shawwal 29, 1432 (corresponding to September 27, 2011).
- 1.4. During the year ended 31 December 2016, the Company has entered into an agreement with its shareholder dated 13 Rajab 1437H corresponding to 20 April 2016, wherein Beltone, Financial Holding S.A.E (Egyptian Partner) has transferred all of its shares to a local shareholder. The legal process of transferring foreign shareholding to the local shareholder is under process.
- 1.5. The Ministry of Commerce and Investment commenced the implementation of the new Companies Regulations effective Rajab 25, 1437H corresponding to May 02, 2016 ("the effective date"). The new Regulations shall replace the Companies Regulations promulgated by Royal Decree No. M/6 dated 22 Rabi Awwal 1385H and it shall supersede all provisions that are inconsistent therewith. Companies existing as at the effective date of the regulations shall make all necessary amendments to their Article of Association to comply with the requirements of the provisions of the new companies regulations within a period of one year of the effective date of the Companies Regulations. Legal formalities to amend the Company's Article of Association according to new Regulations are under process.
- 1.6. The principal activities of the Company are arranging and rendering financial advisory services.
- 1.7. 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. Going concern

The accumulated losses of the Company as at the financial year ended on December 31, 2020, are SR 4,781,894 (2019: SR 5,327,595), exceeding more than 50% of the share capital. Article 150 of the Companies Law requires that the Company executives or the auditor, upon knowledge of accumulated losses exceeding 50% of the share capital, to inform the chairman of the Board of Director (Board), who shall promptly inform the board members. The Board shall, within 15 days from the date of notification, call for an extraordinary general assembly meeting within 45 days from the date of its knowledge of such losses, to decide whether to increase or decrease the Company's capital, in accordance with the provisions of law, to the extent where losses are decreased below half of the paid-in capital, or to dissolve the Company prior to the date set forth in its articles of association. However, subsequent to the year-end (refer note 21.2), dated March 30, 2021, the Company has passed a resolution to support the Company by increasing its share capital by issuing 300,000 shares amounting to SR 3 Million. Therefore, the Company continue to adopt the going concern basis in preparing these financial statements. The Company has not yet submitted stated resolution for CMA approval and has not published the same as per the requirements of Article 158 of the Companies Law.

BMG FINANCIAL GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the financial statements for the year ended December 31, 2020

(All amounts in Saudi Riyals unless otherwise stated)

3. Basis of preparation

3.1. Statements of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standard (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for certified Public Accountants (SOCPA).

3.2. Basis of measurement

The financial statements have been prepared on the historical cost basis except for employees defined benefit obligations which are measured using a simplified projected unit credit method.

3.3. Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals ("SR") which is the functional and presentation currency of the Company.

4. Significant accounting estimates, assumptions and judgments

The preparation of these 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.

4.1. Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

4.1.1. Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a Discounted Cash Flow ("DCF") model.

The cash flows are derived from the budget for the next five years and do not include possible restructuring activities that the Company may commit to or significant future investments that may enhance the asset's performance of the Cash Generating Unit ("CGU") being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

4.1.2. Impairment of financial assets

At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in statement of comprehensive income.

BMG FINANCIAL GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the financial statements for the year ended December 31, 2020

(All amounts in Saudi Riyals unless otherwise stated)

4. Significant accounting estimates, assumptions and judgments (Continued)

4.1. Key sources of estimation uncertainty (Continued)

4.1.3. Long-term assumptions for employee benefits

Post-employment defined benefits represent obligations that will be settled in the future and require assumptions to project obligations, if any. The accounting requires management to make further assumptions regarding variables such as discount rates, rate of compensation increases, mortality rates and employment turnover. Periodically, management of the Company consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee defined benefit costs incurred.

4.1.4. Useful lives of property and equipment

The management determines the estimated useful lives property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

4.1.5. Contingent liabilities

Contingent liabilities are determined by the likelihood of occurrence or non-occurrence of one or more uncertain future events. Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4.1.6. Zakat and income tax

The Company is subject to the legislation of General Authority of Zakat and Tax ("GAZT"). Accrual of Zakat is recognized in the statement of income. Additional zakat liability, calculated by Authorities, if any, related to prior years zakat declaration is recognized in the year in which final declaration is issued.

5. Adoption of new and revised International Financial Reporting Standards

5.1. New standards and amended effective in the period on or after 1 January 2020

The following standards and amendments have become effective for the annual periods commencing on or after 1 January 2020.

- Amendment to IFRS 3 – definition of business
- Amendments to IAS 1 and IAS 8 – definition of material
- Revised conceptual framework for financial reporting
- Amendments to IFRS 7, IFRS 9 and IAS 39 – Interest rate benchmark reform
- Amendment to IFRS 16 Covid-19 related rent concessions

The adoption of the above standards and amendments have no significant impact on the financial statements of the current or prior periods and expected to have no significant effect on future periods.

BMG FINANCIAL GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the financial statements for the year ended December 31, 2020

(All amounts in Saudi Riyals unless otherwise stated)

5. Adoption of new and revised International Financial Reporting Standards (Continued)

5.2. New standards and amendments in issue but not yet effective for years ending 31 December 2020.

The following standards and amendments will become effective for the annual periods beginning on or after 1 January 2021.

- IFRS 17 - Insurance Contract"
- Amendments to IAS 1 - Classification of Liabilities as Current or Non-current
- Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before intended use
- Amendments to IFRS 3 - Reference to the Conceptual Framework
- Amendments to IAS 37 - Onerous Contracts - Cost of Fulfilling a Contra"
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture"
- Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16 & IAS 39 - Interest Rate Benchmark Reform - Phase 2

The Company intends to adopt the above standards when they become effective (if applicable).

6. Summary of significant accounting policies

The accounting policies adopted in the preparation of these financial statements are consistent with those used in previous years except for the change in the accounting treatment for the recognition of Zakat and Income Tax (refer note 20). The significant accounting policies adopted for the preparation of these financial statements are as follows

6.1. Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Costs include all costs incurred to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management. Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The rates used for the depreciation of property and equipment are as follow:

Assets category	Rates
• Office equipment	15%
• Furniture and fixtures	10%
• Leasehold improvement	10%
• Motor vehicles	20%

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. On disposal, the difference between the net disposal proceeds and the carrying amount of the item sold is recognised in statement of comprehensive income, and included in 'other income'.

BMG FINANCIAL GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the financial statements for the year ended December 31, 2020

(All amounts in Saudi Riyals unless otherwise stated)

6. Summary of significant accounting policies (continued)

6.2. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Classification and measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All instruments are measured initially at their fair value including transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

6.2.1. Financial assets

Initial recognition and measurement

The Company classifies its financial assets in the following categories; trade receivables, cash and cash equivalents, due from related parties. All financial assets are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial asset.

Trade and other receivables

Trade and other receivables are initially recognized at the transaction price. All sales are made on the basis of normal credit terms, and the receivables do not bear interest. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. The losses arising from impairment are recognised in the statement of comprehensive income.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise of cash at banks and cash in hand, all with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in bank net of outstanding bank overdrafts.

6.2.2. Financial liabilities

Recognition and measurement

The Company's financial liabilities include trade payables, accruals, and other payables, loans and borrowings and due to related parties.

Trade payables and accruals

Liabilities are recognised for amounts to be paid in the future for services received or when the risks and rewards associated with goods are transferred to the Company, whether billed by the supplier or not.

BMG FINANCIAL GROUP COMPANY

(A Saudi Closed Joint Stock Company)

Notes to the financial statements for the year ended December 31, 2020

(All amounts in Saudi Riyals unless otherwise stated)

6. Summary of significant accounting policies (continued)

6.2. Financial instruments (continued)

6.2.2. Financial liabilities (continued)

Loans and borrowings

Short term and long term loans are derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financing liability is replaced by another from the same lender on substantial different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Company has a legal right to offset the amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

6.3. Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of comprehensive income. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed (other than for goodwill) if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to the statement of comprehensive income. The Company does not have non-monetary assets and liabilities denominated in foreign currencies.

6.4. Current versus non-current classification

The Company presents assets and liabilities in the financial statements based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

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6. Summary of significant accounting policies (continued)

6.4. Current versus non-current classification (continued)

All the assets other than as mentioned above are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

All liabilities, other than as mentioned above are classified as non-current.

6.5. Revenue

Revenue from contracts with customers is external revenue that is earned from the provision of services that are output of the Company for consideration.

6.6. Operating expenses

The nature of activities of the Company are such that direct costs cannot be specifically identified. Therefore, all the costs and charges are classified under operating expenses.

6.7. Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable and material.

6.8. Dividends

Dividends are recorded in the financial statements in the period in which they are approved by the shareholders of the Company.

6.9. Provisions

6.9.1. General

Provisions for customer claims are recognised when the Company has a present obligation (legal or constructive) as a result of past events it is probable that a transfer of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect of time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects a current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

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6. Summary of significant accounting policies (continued)

6.9. Provisions (continued)

6.9.2. Defined benefit plans

The Company's net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefit that employee's have earned in the current and prior periods.

The calculation of defined benefit obligation is performed annually by an in-house qualified expert using the projected unit credit method. The remeasurement of the net defined benefit liability, which comprise actuarial gains and losses, are recognized immediately in other comprehensive income in the period in which they occur. Remeasurement recognized in the other comprehensive income are reflected immediately in the retained earnings and are not reclassified to profit or loss in the subsequent periods. The Company determines the net interest expense on net defined benefit liability for the period by applying the discount rate beginning of the annual period to the net defined benefit liability. Net interest expense and other expense related to defined benefit plan are recognized in the profit or loss.

6.9.3. Zakat and income tax

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Provision for zakat for the Company is charged to the statement of comprehensive income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under the Saudi Arabian Income Tax Law.

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7. Property, plant and equipment

Cost	Office equipment	Furniture & fixtures	Leasehold improvement	Motor vehicle	Total
Balance as at December 31, 2018	923,048	237,806	402,930	799,540	2,363,324
Disposals during the year	-	-	-	(248,654)	(248,654)
Balance as at December 31, 2019	923,048	237,806	402,930	550,886	2,114,670
Additions during the year	6,058	-	-	-	6,058
Balance as at December 31, 2020	929,106	237,806	402,930	550,886	2,120,728
Accumulated depreciation					
Balance as at December 31, 2018	859,046	231,194	302,604	774,882	2,167,726
Depreciation for the year	22,563	1,145	17,142	13,673	54,523
Disposals during the year	-	-	-	(237,674)	(237,634)
Balance as at December 31, 2019	881,609	232,339	319,746	550,881	1,984,575
Depreciation for the year	24,183	1,145	17,142	-	42,470
Balance as at December 31, 2020	905,792	233,484	336,888	550,881	2,027,045
Net book value on December 31, 2020	23,314	4,322	66,042	5	93,683
Net book value on December 31, 2019	41,439	5,467	83,184	5	130,095

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8. Trade receivables

	2020	2019
Trade receivables	584,066	1,037,846
Less: Provision for doubtful debts	-	-
	<u>584,066</u>	<u>1,037,846</u>

8.1. Movement in provision for doubtful debts:

January 01,	-	400,000
Provided during the year	-	-
Written off during the year	-	(400,000)
December 31,	<u>-</u>	<u>-</u>

8.2. Aging of the trade receivables is as follow:

Past due 1-120 days	-	451,646
Past due 121-365 days	-	-
Past due more than 365 days	584,066	586,200
	<u>584,066</u>	<u>1,037,846</u>

Past due receivables over 365 days SR 584,066 are not considered as impaired. The management is under follow up with these customers for recovery and as per their past experience not expecting any loss against these receivables.

9. Prepayments and other receivables

	2020	2019
Prepaid rent	30,712	34,306
Prepaid insurance	34,888	-
Employee advances	33,813	5,500
Others	5,291	1,792
	<u>104,704</u>	<u>41,598</u>

10. Cash and cash equivalents

Cash at bank	153,701	153,701
Cash in hand	2,085	-
	<u>155,786</u>	<u>153,701</u>

11. Share capital

The share capital of the company is divided into 500,000 (2018: 500,000) shares of SR 10/each, fully paid.

Partners	Nationality	Ownership	(SR)
Mr. Mohammed Basil M. Al-Ghalayini	Saudi	37.8%	1,890,000
Mr. Mohammed Youssef M. 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>

The Company has entered into an agreement with its shareholder dated 13 Rajab 1437H corresponding to 20 April 2016, whereby Beltone Financial Holding S.A.E has transferred its shares to local shareholders. Legal formalities of this transfer have not yet completed as at 31 December 2020 (refer note 1.4). The revised shareholding will be as follow:

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11. Share capital (Continued)

Partners	Nationality	Ownership	(SR)
Mr. Mohammed Basil M. Al-Ghalayini	Saudi	67.8%	3,390,000
Mr. Mohammed Youssef M. 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
		<u>100%</u>	<u>5,000,000</u>

12. Statutory reserve

As per the new Saudi Companies' Act, 10% of the annual net income is required to be set aside to statutory reserve. The company may discontinue such annual transfer upon the reserve reaching 30% of paid up capital. This reserve is not available for distribution.

13. Employees defined benefit obligations

13.1. The movement in employees defined benefit obligations are as follow:

	2020	2019
Balance as at January 1,	695,985	518,436
Current service cost	48,696	122,246
Interest cost	13,357	14,724
Loss due to change in assumptions	(324,060)	132,605
Payments made during the year	(58,334)	(92,326)
Balance as at December 31,	<u>375,344</u>	<u>695,685</u>

13.2. Employee defined benefit expense recognized in the statement of income is as follows:

	2020	2019
Current service cost	48,696	122,246
Interest cost	13,357	14,724
	<u>62,053</u>	<u>136,970</u>

13.3. (Gain) / loss due to change in assumptions recognized in the statement of other comprehensive income	<u>(324,060)</u>	<u>132,605</u>
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13.4. Principal assumptions used in determining employees defined benefit obligations for the Company are as follows:

	2020	2019
Discount rate	0.93%	1.92%
Salary increment rate	0.00%	5.00%
Employee turnover rate	7.41%	21.00%
Expected retirement age	60 years	60 years

To simplify calculations, service periods have been rounded off in years, less than six months considered as zero year, over and equal to six months considered as one year.

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14. Deferred income

	2020	2019
Deferred income (Note 14.1)	<u>390,670</u>	<u>390,670</u>

14.1. This represents disputed revenue for the prior years, will be taken to income statement on the final settlement with the respective customers and related parties. The details are as follow:

	2020	2019
Akar One – Affiliate (refer Note 17.1)	375,000	375,000
Al Saamani Factory	<u>15,670</u>	<u>15,670</u>
	<u>390,670</u>	<u>390,670</u>

15. Accounts payable and accruals

GOSI payable	190,329	179,786
VAT payable	230,044	124,793
Accrued expenses and other payables	<u>406,510</u>	<u>378,886</u>
	<u>826,883</u>	<u>683,465</u>

16. Zakat and income tax

16.1. Calculation of zakat

Capital and retained earnings	1,818,293	1,873,338
Deduction for property and equipment	<u>(190,529)</u>	<u>(130,095)</u>
Zakatable equity	<u>1,627,764</u>	<u>1,743,243</u>
Adjusted zakatable equity (@ 365 days)	1,678,344	1,797,412
Adjusted net loss	<u>(1,425,762)</u>	<u>(1,497,758)</u>
Zakat base	<u>252,582</u>	<u>299,654</u>
Zakat due @ 2.5%	<u>6,314</u>	<u>7,491</u>

16.2. Movement in zakat and tax provision for the year

For the year ended December 31, 2020	Zakat	Tax	Total
Balance at beginning of the year	201,893	55,324	257,217
Provided during the year	<u>6,314</u>	<u>-</u>	<u>6,314</u>
	<u>208,207</u>	<u>55,324</u>	<u>263,531</u>

For the year ended December 31, 2019	Zakat	Tax	Total
Balance at beginning of the year	194,402	55,324	249,726
Provided during the year	<u>7,491</u>	<u>-</u>	<u>7,491</u>
	<u>201,893</u>	<u>55,324</u>	<u>257,217</u>

16.3. Status of zakat assessments

The Company has calculated and filled its zakat and income tax returns for the prior and current years on the basis of status of company as 100% Saudi company. Whereas, GAZT record shows the registration status of the Company as a 100% foreign company. Therefore, the final Zakat and Income Tax liability is subject to the updation and approval of legal status of the company with GAZT as a 100% Saudi Company.

The Company is in process of filling zakat return for the year 2019 and 2020. The current zakat certificate of the Company is valid until April 30, 2021. No assessment has been raised by the General Authority of Zakat and Tax (GAZT) for the years from 2015 till 2019.

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17. Related parties transaction and balances

In the ordinary course of business, the Company undertakes transactions with the related parties of the Company. All such transactions are executed on commercial terms that are approved by management. Transactions during the year-end with related parties and the related balances as of December 31 are as follows:

17.1.	Due from related parties	Relationship	Nature of transactions	Amount of transaction		Closing balance	
				2020	2019	2020	2019
International Shores for Commercial services Belton Financial Holding		Share holder Share holder	-	-	-	926,918	926,918
				-	-	10,030	10,030
						936,948	936,948
Akar One (refer Note 14.1) BMG Financial Advisory		Affiliate Affiliate	-	-	-	375,000	375,000
				-	-	500,000	500,000
						875,000	875,000
						1,811,948	1,811,948
17.2. Due to related parties							
Mr. Mohammed Basil M Al Ghaliyani	Share holder		Funds received on behalf of the Company	2,085,920	1,407,476	651,026	1,475,746
			Expenses paid on behalf of shareholder	-	-	-	-
			Expenses paid on behalf of the company	(2,205,730)	(2,561,745)	651,026	1,475,746

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18. General and administrative expenses

	2020	2019
Salaries and other employee benefits	1,044,365	1,388,147
Professional fee	75,000	158,752
Rent	256,344	357,905
Traveling	17,276	58,280
Depreciation (Note - 7)	42,470	54,523
Communication	36,708	61,134
Membership fees	23,845	65,757
Repair and maintenance	46,041	60,794
Others	152,138	339,863
	<u>1,694,187</u>	<u>2,545,155</u>

19. Financial risk management

The Company's principal financial liabilities comprise of trade payables, other payables and due to related parties. The main purpose of these financial liabilities are to raise finance for the Company's operations. The Company has various financial assets such as cash and bank balances, trade receivables, prepayments and other receivables and due from related parties which arise directly from its operations.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company's policies and risk appetite. The management reviews and agrees policies for managing each of these risks, which are summarized below.

19.1. Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The company transactions are principally in Saudi Riyals, US dollars and Euros.

The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, however the company is not exposed to significant currency risk, as most of its financial assets and financial liabilities are dominated in Saudi Riyals.

19.2. Credit risk

Potential material areas of credit risk consist of accounts receivable, prepayments and other receivables. Trade accounts receivable. Company monitor the financial position of their customers on an ongoing basis. The granting of credit is controlled by application of credit limits. An allowance is made for specific doubtful debts at the reporting date. Management did not consider there to be any material credit risk exposure that was not adequately covered.

19.3. Liquidity risk

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 an 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 (funds financed by the shareholders) in order to meet any future financial commitments as and when they fall due.

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20. Fair value

Fair value is the amounts for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. As the company's financial statements are prepared under the historical cost method, differences may arise between the book values and fair value estimates. The fair value of the company's assets and liabilities approximate their carrying amount.

21. Subsequent matters

21.1. Impact of Covid-19

The outbreak of the novel Coronavirus (COVID-19) in early 2020 in most countries has caused widespread disruptions to business, with a consequential negative impact on economic activities. The Company is continually monitoring its impact, while working closely with the local regulatory authorities, to manage the potential business disruption of the COVID-19 outbreak.

In light of COVID-19, the Company has considered whether any adjustments and changes in judgments, estimates and risk management are required to be considered and reported in the financial statement. The management has concluded there is no impact on business operations.

21.2. Increase in share capital

Subsequent to the year-end, dated March 30, 2021, the Company has passed a resolution to support the Company by increasing its share capital by issuing 300,000 shares amounting to SR 3 Million. The Company has not yet submitted stated resolution for CMA approval.

22. Approval of the financial statements

These financial statements were approved by the Management on March 30, 2021 (corresponding to Sha'ban 17, 1442H).