

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

**FINANCIAL STATEMENTS**  
For the year ended December 31, 2016  
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  
License No. 46/11/323 issued 11/3/1992

## INDEPENDENT AUDITORS' REPORT

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

### *Opinion*

We have audited the financial statements of BMG Financial Group ("the Company"), which comprise the balance sheet as at December 31, 2016, statements of income, cash flows, and changes in shareholders' equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the balance sheet of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting standards as issued by Saudi Organization for Certified Public Accountants (SOCPA).

### *Basis for opinion*

We conducted our audit in accordance with Auditing Standards endorsed in Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements in Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of matter*

We draw attention to note 1 to the financial statements; the Company's Saudi Arabian General Investment Authority license expired on Shawwal 29, 1432 (corresponding to September 27, 2011). The Company's management has initiated the legal process of transferring foreign shareholding to local shareholders and is confident that it will be completed in due course. Accordingly, the management believe that no impact on the Company's license from Capital Market Authority's and its Commercial Registration. Our opinion is not qualified in respect of this matter.



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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and Regulations for Companies and Company's Article 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

### ***Auditors' responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Auditing Standards 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 Auditing Standards endorsed in Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings including any significant deficiencies in internal control that we identify during our audit.

**For KPMG Al Fozan & Partners  
Certified Public Accountants**

Ebrahim Oboud Baeshen  
License No. 382

Rajab 3, 1438H  
Corresponding to March 31, 2017



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

**BALANCE SHEET**

As at December 31, 2016

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	161,964	14,879
Trade receivables	5	1,717,867	1,010,030
Due from related parties	13	1,512,135	1,426,918
Prepayments and other current assets	6	120,809	125,338
<b>Total current assets</b>		<b>3,512,775</b>	<b>2,577,165</b>
<b>Non-current assets:</b>			
Property and equipment	7	345,892	442,868
<b>Total assets</b>		<b>3,858,667</b>	<b>3,020,033</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
<b>Current liabilities:</b>			
Accounts payable		69,326	131,439
Accrued expenses and other current liabilities	8	223,319	340,688
<b>Total current liabilities</b>		<b>292,645</b>	<b>472,127</b>
<b>Non-current liabilities:</b>			
Employees' end of service benefits	9	281,841	193,957
Due to related parties	13	777,513	--
<b>Total non-current liabilities</b>		<b>1,059,354</b>	<b>193,957</b>
<b>Total liabilities</b>		<b>1,351,999</b>	<b>666,084</b>
<b><u>SHAREHOLDERS' EQUITY</u></b>			
Share capital	10	5,000,000	5,000,000
Accumulated losses		(2,493,332)	(2,646,051)
<b>Total shareholders' equity</b>		<b>2,506,668</b>	<b>2,353,949</b>
<b>Total liabilities and shareholders' equity</b>		<b>3,858,667</b>	<b>3,020,033</b>

The accompanying notes 1 through 16 form an integral part of these financial statements.

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

**STATEMENT OF INCOME**

For the year ended December 31, 2016  
(Expressed in Saudi Arabian Riyals)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Revenue		<b>2,457,014</b>	1,948,300
Cost of revenue		<b>(1,493,920)</b>	(1,498,336)
<b>Gross profit</b>		<b>963,094</b>	449,964
General and administrative expenses	11	<b>(766,868)</b>	(1,901,351)
<b>Operating income / (loss)</b>		<b>196,226</b>	(1,451,387)
Other income		--	1,250
<b>Net income / (loss)</b>		<b>196,226</b>	(1,450,137)
Earnings / (loss) per share (SR):			
Operating income / (loss)		<b>0.39</b>	(2.90)
Net income (loss)		<b>0.39</b>	(2.90)

The accompanying notes 1 through 16 form  
an integral part of these financial statements.

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

**STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2016  
(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>			
Net income / (loss)		196,226	(1,450,137)
<i>Adjustment to reconcile net income / (loss) generated from / (used in) operating activities:</i>			
Depreciation	7	112,821	157,042
Provision for doubtful debts	5	--	940,867
Provision for employees' end of service benefits	9	97,884	124,794
		<u>406,931</u>	<u>(227,434)</u>
<b>Changes in operating assets and liabilities:</b>			
Trade receivables		(707,837)	(149,847)
Due from related parties		(85,217)	(1,054,550)
Prepayments and other current assets		4,529	(5,099)
Due to related parties		777,513	--
Trade payables		(62,113)	(155,485)
Accrued expenses and other current liabilities		(160,876)	(99,533)
		<u>172,930</u>	<u>(1,691,948)</u>
Employees' end of service benefits paid	9	(10,000)	(67,000)
<b>Net cash generated from / (used in) operating activities</b>		<u>162,930</u>	<u>(1,758,948)</u>
<b>Cash flows from investing activities:</b>			
Additions to property and equipment	7	(15,845)	(29,384)
<b>Cash flows from financing activities:</b>			
Additional paid-in-capital		--	1,609,767
Net increase / (decrease) in cash and cash equivalents		147,085	(178,565)
Cash and cash equivalents at January 1	4	14,879	193,444
<b>Cash and cash equivalents at December 31</b>	4	<u>161,964</u>	<u>14,879</u>
<b>Non-cash transactions:</b>			
Absorption of losses		--	(2,837,215)

The accompanying notes 1 through 16 form an integral part of these financial statements.

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

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the year ended December 31, 2016

(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, 2015	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	--	(2,837,215)	2,837,215	--
Zakat and income tax charge for the year (note 12)	--	--	(47,494)	(47,494)
Balance at December 31, 2015	5,000,000	--	(2,646,051)	2,353,949
Net income	--	--	196,226	196,226
Zakat and income tax charge for the year (note 12)	--	--	(43,507)	(43,507)
<b>Balance at December 31, 2016</b>	<b><u>5,000,000</u></b>	<b><u>--</u></b>	<b><u>(2,493,332)</u></b>	<b><u>2,506,668</u></b>

The accompanying notes 1 through 16 form  
an integral part of these financial statements.



## **BMG FINANCIAL GROUP**

(A Saudi Closed Joint Stock Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(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. 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, (Beltone Financial Holding S.A.E) wherein Beltone has transferred its shares to the local shareholders. The Company's management has initiated the legal process of transferring foreign shareholding to local shareholders and is confident that it will be completed before 30 June 2017. Accordingly, the management believe that no impact on the Company's license from Capital Market Authority's and its Commercial Registration.

The principal activities of the Company are 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"). The new Regulation for Companies issued through Royal Decree M/3 on November 11, 2015 (hereinafter referred as "The Law") came into force on Rajab 25, 1437H (corresponding to May 2, 2016). The Company has to amend its Articles of Association for any changes to align the Articles to the provisions of The Law. Consequently, the Company shall present the amended Articles of Association to the shareholders in their Extraordinary General Assembly meeting for their ratification. The full compliance with The Law is expected not later than Rajab 24, 1438H (corresponding to April 21, 2017).

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

---

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

**b) Basis of measurement**

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

**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.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

---

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

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

*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.

*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.

*v) Going concern*

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, 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.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(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. The provision are charged to the statement of income and any subsequent recovery of receivable amount previously written off are credited to statement of income.

**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. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

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 equipments	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.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

---

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

**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.

**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 be 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) Expenses**

All expenses, excluding cost of revenue, are classified as general and administrative expenses. Allocations of common expenses between cost of revenue and general and administrative expenses, when required, are made on a consistent basis.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

---

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

**i) Zakat and income tax**

The Company is subject to the Regulations of the General Authority of Zakat and Tax (“GAZT”) in the Kingdom of Saudi Arabia. Zakat is provided on an accrual basis. The Zakat charge is computed at the higher of income for Zakat purposes for the year or Zakat base. Any difference in the previously recorded estimate is recognised when the final assessment is approved by the GAZT.

The Company is subject to Zakat attributable to the Saudi shareholder and to income tax attributable to the foreign shareholder. The Company accrues Zakat and income tax and charges such amounts to the equity accounts of the respective shareholders. Since the shareholders have agreed to reimburse Zakat and income tax, any such amounts received from the shareholders are credited directly to retained earnings.

The Company withholds taxes on transactions with non-resident parties and foreign shareholders in accordance with GAZT regulations.

**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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at 31 December comprise the following:

	<u>2016</u>	<u>2015</u>
Cash in hand	11,850	13,576
Cash at bank - current accounts	<u>150,114</u>	<u>1,303</u>
	<u>161,964</u>	<u>14,879</u>

**5. TRADE RECEIVABLES**

Trade receivables at 31 December comprise the following:

	<u>2016</u>	<u>2015</u>
Trade receivables	1,717,867	3,181,205
Provision for doubtful debts (note "a" below)	<u>--</u>	<u>(2,171,175)</u>
	<u>1,717,867</u>	<u>1,010,030</u>

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

	<u>2016</u>	<u>2015</u>
Balance at beginning of the year	2,171,175	1,230,308
Provision made during the year (note 11)	--	940,867
Written-off	<u>(2,171,175)</u>	<u>--</u>
Balance at the end of the year	<u>--</u>	<u>2,171,175</u>

All trade receivables are unsecured and it is not the practice of the Company to obtain collaterals. Before accepting any customer, the management of the Company evaluates the credit quality of potential customers individually and defines maximum credit period and credit limits. The Company, based on its historical experience and collection trends, current market conditions and expected future cash flows, creates an allowance for doubtful debts against its trade receivables.

**6. PREPAYMENTS AND OTHER CURRENT ASSETS**

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

	<u>2016</u>	<u>2015</u>
Prepayments	101,161	104,462
Employee advances	<u>19,648</u>	<u>20,876</u>
	<u>120,809</u>	<u>125,338</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

**7. PROPERTY AND EQUIPMENT**

The movement in property and equipment during the year ended December 31, 2016 is analyzed as under:

	<b><u>Office equipments</u></b>	<b><u>Furniture &amp; fixtures</u></b>	<b><u>Leasehold improvements</u></b>	<b><u>Vehicles</u></b>	<b><u>Total</u></b>
<b><u>Cost:</u></b>					
At beginning of the year	899,382	237,806	402,930	799,540	2,339,658
Additions during the year	15,845	--	--	--	15,845
Balance at the end of the year	<u>915,227</u>	<u>237,806</u>	<u>402,930</u>	<u>799,540</u>	<u>2,355,503</u>
<b><u>Accumulated depreciation:</u></b>					
At beginning of the year	791,105	222,716	250,912	632,057	1,896,790
Charge for the year	32,209	4,088	17,293	59,231	112,821
Balance at the end of the year	<u>823,314</u>	<u>226,804</u>	<u>268,205</u>	<u>691,288</u>	<u>2,009,611</u>
<b><u>Net book value:</u></b>					
<b>December 31, 2016</b>	<b><u>91,913</u></b>	<b><u>11,002</u></b>	<b><u>134,725</u></b>	<b><u>108,252</u></b>	<b><u>345,892</u></b>
December 31, 2015	<u>108,277</u>	<u>15,090</u>	<u>152,018</u>	<u>167,483</u>	<u>442,868</u>

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

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

	<b><u>2016</u></b>	<b><u>2015</u></b>
Accrued expenses	158,187	209,991
Accrued Zakat (Note 12)	54,320	10,813
Other liabilities	<u>10,812</u>	<u>119,884</u>
	<b><u>223,319</u></b>	<b><u>340,688</u></b>

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

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

	<b><u>2016</u></b>	<b><u>2015</u></b>
Balance at beginning of the year	193,957	136,163
Provision for the year	97,884	124,794
Payments during the year	<u>(10,000)</u>	<u>(67,000)</u>
Balance at the end of the year	<b><u>281,841</u></b>	<b><u>193,957</u></b>



**BMG FINANCIAL GROUP**

(A Saudi Closed Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

**10. SHARE CAPITAL**

At 31 December 2016, the share capital of the Company was SR 5,000,000 (2015: SR 5,000,000) divided into 500,000 shares (2015: 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 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
		<b>100%</b>	<b>5,000,000</b>

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

<u>Name</u>	<u>Nationality</u>	<u>Ownership</u>	<u>Saudi Riyals</u>
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
		<b>100%</b>	<b>5,000,000</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

**11. GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2016</u>	<u>2015</u>
Provision for doubtful debts (note 5)	--	940,867
Professional fees	<b>59,031</b>	94,838
Rent (note 14)	<b>278,576</b>	246,704
Traveling	<b>127,431</b>	125,541
Depreciation (note 7)	<b>112,821</b>	157,042
Communication	<b>41,079</b>	109,876
Membership fees	<b>58,000</b>	58,750
Vehicle expenses	<b>22,795</b>	43,641
Office expenses	<b>42,216</b>	48,063
Repairs and maintenance	<b>20,949</b>	33,479
Others	<b>3,970</b>	42,550
	<b><u>766,868</u></b>	<b><u>1,901,351</u></b>

**12. 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>2016</u>			<u>2015</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	<b><u>43,507</u></b>	<b><u>--</u></b>	<b><u>43,507</u></b>	<u>47,494</u>	<b><u>--</u></b>	<b><u>47,494</u></b>

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

	<u>2016</u>	<u>2015</u>
Capital and retained earnings	<b>1,647,765</b>	4,359,214
Adjusted net loss	<b>(6,826)</b>	(513,192)
Provision at beginning of year	<b>128,770</b>	909,630
Deduction for property, plant and equipment	<b>(29,421)</b>	(2,855,893)
	<b><u>1,740,288</u></b>	<b><u>1,899,759</u></b>

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

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

***b) Accrued Zakat and income tax***

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

	<u>2016</u>			<u>2015</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	(44,511)	55,324	10,813	(92,005)	55,324	(36,681)
Add: Charge for the year	43,507	--	43,507	47,494	--	47,494
Balance at end of the year	<u>(1,004)</u>	<u>55,324</u>	<u>54,320</u>	<u>(44,511)</u>	<u>55,324</u>	<u>10,813</u>

***c) Status of assessments***

The tax returns for the years 2009 to 2014 are currently under review by the General Authority for Zakat and Tax (GZAT). The tax return for the year 2014 has been filed with GZAT.

**13. RELATED PARTY TRANSACTIONS AND BALANCES**

- 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 Board of Directors.
- Significant related parties transactions for the year ended December 31 and balances arising there from are described as under:

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

**13. RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

**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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
BMG Financial Advisory	Affiliate	Advisory service	--	300,000	<b>500,000</b>	500,000
Akar One	Affiliate	Advisory service	--	--	<b>703,912</b>	754,550
International Shores for Commercial Services	Shareholder	Advisory services	--	--	<b>172,368</b>	172,368
Mr. Mohammed Basil M. Al-Ghalayini	Shareholder	Payments made on behalf of the shareholder	<b>27,733</b>	--	<b>27,733</b>	--
Al Joman Company	Affiliate	Payments made on behalf of the Company	<b>108,122</b>	--	<b>108,122</b>	--
					<b><u>1,512,135</u></b>	<b><u>1,426,918</u></b>

**Due to related parties**

BMG Foundation	Affiliate	Payments made on behalf of the Company	<b>777,513</b>	--	<b><u>777,513</u></b>	--
----------------	-----------	--	----------------	----	-----------------------	----

**14. OPERATING LEASE ARRANGEMENTS**

	<b><u>2016</u></b>	<b><u>2015</u></b>
Payments under operating leases recognized as an expense during the year	<b><u>278,576</u></b>	<b><u>246,704</u></b>

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

---

**15. 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. Management does not expect any significant loss from non-performance by counterparties on credit granted during the financial year under review other than those which have been provided in these financial statements.

**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. Further, the shareholders of the Company have resolved to provide financial support as and when necessary.

**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.

**16. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements have been approved by the Board of Directors on Rajab 3, 1438H, corresponding to March 31, 2017.