

**SAUDI ECONOMIC AND DEVELOPMENT
SECURITIES COMPANY (SEDCO CAPITAL)**
(Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
December 31, 2017
with
INDEPENDENT AUDITORS' REPORT



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License No. 46/11/323 issued 11/3/1992

Independent auditors' report

To the Shareholders of Saudi Economic and Development Securities Company

Opinion

We have audited the financial statements of Saudi Economic and Development Securities Company ("the Company"), which comprise the balance sheet as at December 31, 2017, the 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 financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting standards as issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting standards as issued by SOCPA, the applicable requirements of the Regulations for Companies, Company's By-Laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 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, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Ebrahim Oboud Baashen
License No. 382



Jeddah, Jumada Al Thani 25, 1439H
Corresponding to March 13, 2018

SAUDI ECONOMIC AND DEVELOPMENT SECURITIES COMPANY (SEDCO CAPITAL)
(Saudi Closed Joint Stock Company)

BALANCE SHEET

As of December 31, 2017

(Expressed in Saudi Riyals)

	<i>Notes</i>	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	4	89,518,200	97,028,667
Murabaha investments		--	25,000,000
Accounts receivable and accrued income	5	41,812,858	27,610,377
Held for trading investments	8	56,656,040	48,000,000
Prepayments and other current assets	6	49,016,777	5,628,423
Properties held for sale	7	56,695,191	56,695,191
Total current assets		<u>293,699,066</u>	<u>259,962,658</u>
Non-current assets:			
Available for sale investments	8	53,443,453	51,513,185
Held to maturity investments	8	8,000,000	13,000,000
Property and equipment	9	2,615,877	2,156,168
Intangible assets	10	105,750	154,862
Total non-current assets		<u>64,165,080</u>	<u>66,824,215</u>
Total assets		<u>357,864,146</u>	<u>326,786,873</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities:			
Accrued expenses and other current liabilities	11	34,394,920	33,688,865
Accrued Zakat	16	9,159,794	8,187,975
Total current liabilities		<u>43,554,714</u>	<u>41,876,840</u>
Non-current liability:			
Employees' end of service benefits	18	14,034,728	13,264,308
Total liabilities		<u>57,589,442</u>	<u>55,141,148</u>
Shareholders' equity:			
Share capital	12	200,000,000	200,000,000
Unrealized gain / (loss) on available for sale investments		274,104	(290,110)
Statutory reserve	13	12,020,060	8,193,583
Retained earnings		87,980,540	63,742,252
Total shareholders' equity		<u>300,274,704</u>	<u>271,645,725</u>
Total liabilities and shareholders' equity		<u>357,864,146</u>	<u>326,786,873</u>

The accompanying notes 1 to 26 form an integral part of these financial statements

SAUDI ECONOMIC AND DEVELOPMENT SECURITIES COMPANY (SEDCO CAPITAL)
(Saudi Closed Joint Stock Company)

STATEMENT OF INCOME
Year ended December 31, 2017
(Expressed in Saudi Riyals)

	<i>Notes</i>	<u>2017</u>	<u>2016</u>
Revenue:			
- Income from services	<i>14</i>	128,115,149	123,346,609
- Income from investments	<i>14</i>	10,956,465	6,488,469
Total revenue		<u>139,071,614</u>	<u>129,835,078</u>
Operating expenses:			
Salaries and employees related expenses		(68,580,526)	(63,261,416)
Administrative expenses	<i>15</i>	(22,021,475)	(21,384,100)
Marketing expenses		(2,074,979)	(1,856,367)
Impairment losses on financial investments	<i>8.1.1</i>	--	(319,573)
Losses on properties held for sale	<i>7.2</i>	--	(901,217)
Total operating expenses		<u>(92,676,980)</u>	<u>(87,722,673)</u>
Net income from operations		46,394,634	42,112,405
Foreign exchange loss and other expenses, net		<u>(1,164,093)</u>	<u>(1,565,415)</u>
Net income before Zakat		45,230,541	40,546,990
Zakat	<i>16</i>	<u>(6,965,776)</u>	<u>(6,444,447)</u>
Net income for the year		<u>38,264,765</u>	<u>34,102,543</u>
Earnings per share from net income	<i>22</i>	<u>1.91</u>	<u>1.71</u>
Earnings per share from continuing operations	<i>22</i>	<u>1.96</u>	<u>1.78</u>
Earnings per share from other operations	<i>22</i>	<u>(0.05)</u>	<u>(0.08)</u>

The accompanying notes from 1 to 26 form an integral part of these financial statements

SAUDI ECONOMIC AND DEVELOPMENT SECURITIES COMPANY (SEDCO CAPITAL)
(Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

Year ended December 31, 2017

(Expressed in Saudi Riyals)

	<i>Notes</i>	<u>2017</u>	<u>2016</u>
Cash flow from operating activities:			
Net income before Zakat		45,230,541	40,546,990
<i>Adjustments to reconcile net income to net cash from operating activities:</i>			
Depreciation	9	670,277	815,240
Amortization	10	51,137	410,458
Impairment losses on financial investments	8.1.1	--	319,573
Losses on properties held for sale	7.2	--	901,217
Employees' end of service benefits	18	2,646,511	2,595,778
Unrealized gains on financial investments		(1,220,254)	(67,095)
Loss on disposal of property and equipment		1,056	5,229
<i>Changes in operating assets and liabilities:</i>			
Accounts receivable and accrued income		(14,202,481)	5,007,363
Prepayments and other current assets		(43,388,354)	484,694
Accrued expenses and other current liabilities		706,055	(2,531,377)
Net movement in properties held for sale		--	(50,107,825)
Net cash used in operations		(9,505,512)	(1,619,755)
Employees' end of service benefits paid and other adjustments		(1,876,091)	(364,111)
Zakat paid	16	(5,993,957)	(4,949,961)
Net cash used in operating activities		(17,375,560)	(6,933,827)
Cash flow from investing activities:			
Net movement in murabaha deposits		25,000,000	146,000,000
Net movement in financial investments	9,10	(3,801,840)	(35,327,547)
Purchase of property and equipment and intangible assets		(1,133,067)	(118,257)
Net cash from investing activities		20,065,093	110,554,196
Cash flow from financing activities:			
Dividends paid	12.1	(10,200,000)	(10,000,000)
Net (decrease) / increase in cash and cash equivalents		(7,510,467)	93,620,369
Cash and cash equivalents at the beginning of the year		97,028,667	3,408,298
Cash and cash equivalents at the end of the year	4	89,518,200	97,028,667

The accompanying notes from 1 to 26 form an integral part of these financial statements

SAUDI ECONOMIC AND DEVELOPMENT SECURITIES COMPANY (SEDCO CAPITAL)
(Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended December 31, 2017

(Expressed in Saudi Riyals)

	<u>Share capital</u>	<u>Unrealized loss on available for sale investments</u>	<u>Statutory Reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at January 1, 2016	200,000,000	(357,205)	4,783,329	43,049,963	247,476,087
Dividends paid (note 12.1)	--	--	--	(10,000,000)	(10,000,000)
Net income for the year	--	--	--	34,102,543	34,102,543
Transfer to statutory reserve	--	--	3,410,254	(3,410,254)	--
Net movement in unrealized gains for the year	--	67,095	--	--	67,095
Balance as at December 31, 2016	200,000,000	(290,110)	8,193,583	63,742,252	271,645,725
Dividends paid (note 12.1)	--	--	--	(10,200,000)	(10,200,000)
Net income for the year	--	--	--	38,264,765	38,264,765
Transfer to statutory reserve	--	--	3,826,477	(3,826,477)	--
Net movement in unrealized gains for the year	--	564,214	--	--	564,214
Balance as at December 31, 2017	<u>200,000,000</u>	<u>274,104</u>	<u>12,020,060</u>	<u>87,980,540</u>	<u>300,274,704</u>

The accompanying notes from 1 to 26 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2017

(Expressed in Saudi Riyals)

1. ORGANIZATION AND ACTIVITIES

Saudi Economic and Development Securities Company (SEDCO Capital); (“the Company”) is a Saudi Closed Joint Stock Company registered in Jeddah under Commercial Registration number 4030194994 on 1 Thul-Hujja 1430 (November 18, 2009).

The Company obtained the approval of the Minister of Commerce and Industry via Decree number 328/K, dated 1 Dhul-Qa’adah 1430 (October 20, 2009) to establish the Company.

The Company is an Authorised Person as defined in the authorised persons regulations issued by the Capital Market Authority. The principal activities of the Company are managing, arranging, advising, dealing and custody services with respect to the financial securities business as per license issued by the Capital Market Authority (CMA) number 11157-37 dated 23 Rabi’II 1430 (April 19, 2009). The Company obtained the CMA approval to commence conducting its approved activities starting March 29, 2010.

The Company’s principal place of business is Jeddah.

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 the Saudi Organization for Certified Public Accountants (SOCPA). The new Regulation for Companies issued through Royal Decree M/3 on 11 November 2015 (hereinafter referred as “The Law”) came into force on 25/07/1437H (corresponding to 2 May 2016). The Company is in the process of amending its Bylaws to align with the provisions of The Law.

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

(b) Basis of measurement

The financial statements are prepared under the historical cost basis, using the accrual basis of accounting and the going concern concept, except for available for sale and held for trading investments and positive fair value derivative, which are carried at fair value (note 2(d)(i)).

(c) Functional and presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2017

(Expressed in Saudi Riyals)

2. BASIS OF PREPARATION (continued)

(d) Critical accounting judgements and estimates

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. 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 any future period affected by the revision.

Significant areas where management has exercised judgments, applied estimation or used assumptions are as follows:

(i) Valuation of unquoted available for sale investments

Available for sale investments are carried at fair value. However, in the absence of a reliable fair value measurement, unquoted available for sale investments are carried at cost, less impairment losses, if any.

(ii) Impairment in available for sale investments

The Company exercises judgement to calculate the impairment loss on available for sale investments. This includes the assessment of objective evidence which causes another than temporary decline in the value of investments. In case of equity instruments any significant or prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires management judgment.

(iii) Impairment in held to maturity investments

With respect to held to maturity investments, the Company recognizes an impairment loss when there is an objective evidence of deterioration in the financial health or credit rating of the investee, industry and sector performance or changes in technology that adversely affect the counterparty.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2017

(Expressed in Saudi Riyals)

2. BASIS OF PREPARATION (continued)

(d) Critical accounting judgments and estimates (continued)

(iv) Impairment in 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 a non-financial asset (“asset”) may be impaired. If such indications exist, 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 unit's (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. 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 profit and loss account.

(v) Special purpose entities

The Company in the ordinary course of its business incorporates entities domiciled within and outside the Kingdom of Saudi Arabia. Such entities form an integral part of the Company's operations as a fund manager or for the execution of specified investment objectives (“special purpose entities” or “SPEs”).

Accordingly, investees that qualify as SPEs, including immaterial or temporarily controlled investees, are accounted for on the basis of relevant exposures in the underlying assets (see notes 8 and 9). These are consolidated in the financial statements of the ultimate parent (Saudi Economic and Development Holding Company). However, had such investees been consolidated in the financial statements of the Company, its financial performance and financial results would not have reflected any material differences. As at the reporting date, the Company's SPEs and immaterial controlled investees are represented by:

Name of SPE	Country of incorporation
Saudi Economic and Development Company for Real Estate Funds	Kingdom of Saudi Arabia
Saudi Economic and Development Company for Real Estate Funds II	Kingdom of Saudi Arabia
SEDCO Capital Luxembourg S.A	Luxembourg
SEDCO Capital UK Limited	United Kingdom
SEDCO Capital Cayman Limited	Cayman Islands

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2017

(Expressed in Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash at banks and other short term highly liquid investments with original maturities of three months or less, which are available to the Company without any restrictions.

(b) Accounts receivable

Accounts receivable are carried at original invoice amounts less provision made for doubtful accounts, if any. A provision for doubtful accounts is established when there is a significant doubt that the Company will not be able to collect all amounts due according to the original terms of agreement.

(c) Financial Investments

Held for trading investments (HFT)

Held for trading investments represent investments held for trading purposes. These are initially recorded at cost and then re-measured and stated in the balance sheet at market value and included under current assets. Realized gain or loss on sale of trade securities and changes in market value at balance sheet date are credited or charged to statement of income.

Held to maturity investments (HTM)

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

Available for sale investments (AFS)

Available for sale investments are non-derivative investments that are designated as AFS or not classified as another category of financial assets, and are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as available for sale are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Any unrealised gains or losses arising from changes in fair value are recognized in equity until the investments are derecognized or impaired whereupon any cumulative gains or losses previously recognized are reclassified to statement of income for the period.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2017

(Expressed in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial investments (continued)

Reclassification of financial investments

Upon a change in intention or purpose for holding financial investment, these are re-measured to fair value and reclassified according to such change.

(d) Properties held for sale

Land and other real estate properties (“properties”) held for sale in the course of Company’s operations are classified as properties held for sale. These are initially recognized at cost plus other directly attributable expenses and subsequently accounted for at the lower of cost and net realizable value.

Gains or losses arising from the disposal of properties held for sale are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of income.

(e) Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and impairment losses, if any. Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of an individual item of property and equipment. Leasehold improvements are amortized over the shorter of the estimated useful life or the lease period. The estimated useful lives of property and equipment are as follows:

Leasehold improvements	10 years
Furniture, equipments and vehicle	4 – 6 years

Expenditures for maintenance and repairs that do not materially extend the asset's life are included in expenses.

(f) Intangible assets

Intangible assets are non-monetary assets, lacking physical existence but which are independently identifiable and capable of supplying future economic benefits to the Company. They are measured at the purchase price and all other directly attributable costs at initial recognition and subsequently stated at cost less accumulated amortization and impairment losses, if any.

Amortization is recognized in the statement of income on a straight line basis over the estimated period of economic benefits associated with intangible assets, from the date that they are available for use. Impairment losses, if any, are recognised in the statement of income. The estimated period of benefit associated with intangible assets at the balance sheet date is 4 years.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2017

(Expressed in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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 reliably measured.

(h) 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 corresponding 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.

(i) Zakat

The Company is subject to the Regulations of the General Authority of Zakat and Income Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat is provided on an accruals basis. 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 in the period in which the final assessment is approved by the GAZT.

(j) Derivative Financial Instruments

Changes in the fair value of derivative financial instruments, (that are not designated under hedging relationships) are recognized in the statement of income as they arise and the resulting positive and negative fair values are reported under current assets and liabilities, respectively, in the balance sheet.

(k) Revenue

Revenue from services

Revenue from services includes revenue from management and advisory services and is recognized when the related services are rendered to customers.

Income from financial investments

Income from investments includes unrealized gains on held for trading investment, income from Murabaha deposits and Sukuks. Unrealized gains on held for trading investments are recorded on the basis of fair value of the investment. Income from Murabaha deposits and Sukuks is recognized on an accrual basis using the effective interest method.

Rental income from properties

Rental income from properties is recognized on straight line basis over the term of the corresponding lease arrangement.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2017

(Expressed in Saudi Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Expenses

All expenses are classified as general and administrative expenses unless they are incurred for, and directly attributable to, the core revenue generating activities of the Company, in which case they are classified as direct expenses. Allocations of common expenses between direct expenses and general and administrative expenses, where required, are made on a consistent basis, appropriate to the nature of the item of expense and circumstances of the Company.

(m) 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.

(n) Foreign currency translation

Transactions denominated in foreign currencies are translated to the functional currency of the Company at the exchange rates prevailing 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 prevailing at that date. Exchange differences arising on conversion are recognized in the statement of income currently.

Investment in foreign operations are translated into the functional currency of the Company at the exchange rate prevailing at the balance sheet date. Exchange differences arising on translation are recognized in separate component of equity (exchange translation reserve).

(o) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Company, and accordingly, are not included in these financial statements.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, comprises of following:

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Cash in hand		12,000	12,000
Cash at bank on current accounts		64,506,200	4,316,667
Murabaha investments	4.1	25,000,000	92,700,000
		<u>89,518,200</u>	<u>97,028,667</u>

4.1 This represent murabaha deposit with a local bank, having original maturity of three months or less and carrying profit at rate of 1.90% (2016: 0.45% to 0.77%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2017

(Expressed in Saudi Riyals)

5. ACCOUNTS RECEIVABLE AND ACCRUED INCOME

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Management fee receivable	5.1	29,574,102	22,367,375
Advisory fee receivable	5.1	2,343,364	3,359,131
Dividend receivable	5.2	5,089,223	411,555
Others		4,806,169	1,472,316
		<u>41,812,858</u>	<u>27,610,377</u>

5.1 These represent management and advisory fee receivable and accrued income from core clients and managed funds at the reporting date.

5.2 This represent dividend receivable from available for sale investments as at the reporting date.

5.3 Accounts receivable and accrued income include amounts due from related parties aggregating to SR 24.8 million (2016: SR 23.9 million).

6. PREPAYMENTS AND OTHER CURRENT ASSETS

	<u>2017</u>	<u>2016</u>
Loan to employees	2,648,071	2,237,776
Advance to a managed fund (note 6.1)	40,000,000	--
Prepaid expenses, advances and other receivables	6,368,706	3,390,647
	<u>49,016,777</u>	<u>5,628,423</u>

6.1 This represent advance to a newly established fund (“Built to Suit Fund”) amounting to SR 40 million (2016: SR Nil) for the purchase of a property (acquired consistent with the fund’s objective). The management expects to receive the amount advanced in due course.

7. PROPERTIES HELD FOR SALE

7.1 These represent investments in certain international real estate properties, acquired as part of onward sales to investment fund under Company’s management or as joint interests under warehousing transactions. Subsequent to the acquisition, consistent with the investment objective, the Company has commenced the process to dispose these properties. As at the reporting date, formalities in this regard are in progress.

7.2 During the year, losses amounting to SR nil (2016: SR 901,217) were recorded against the properties on account of decline in value.

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8. FINANCIAL INVESTMENTS

<u>Investment type</u>	<u>Notes</u>	<u>Held for trading</u>		<u>Available for sale</u>		<u>Held to maturity</u>		<u>Total</u>		
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	
<i>Investment funds</i>										
- Money market		56,656,040	48,000,000	--	--	--	--	56,656,040	48,000,000	
- Real estate		--	--	4,500,000	4,500,000	--	--	4,500,000	4,500,000	
- Public equity	8.1.1	--	--	9,802,548	9,064,112	--	--	9,802,548	9,064,112	
- Private equity		--	--	4,735,321	4,479,387	--	--	4,735,321	4,479,387	
<i>Private equities</i>										
- Local SPEs	8.1.2	--	--	142,500	142,500	--	--	142,500	142,500	
- Foreign	8.1.2	--	--	34,136,103	33,182,022	--	--	34,136,103	33,182,022	
<i>Public equity – local</i>	8.1.1	--	--	126,981	145,164	--	--	126,981	145,164	
<i>Sukuks</i>	8.1.3	--	--	--	--	8,000,000	13,000,000	8,000,000	13,000,000	
Total		<u>56,656,040</u>	<u>48,000,000</u>	<u>53,443,453</u>	<u>51,513,185</u>	<u>8,000,000</u>	<u>13,000,000</u>	<u>118,099,493</u>	<u>112,513,185</u>	

8.1.1 During the year, impairment losses amounting to SR nil (2016: SR 319,573) were recognized with respect to certain public equities and public equity funds due to significant decline in value of such investments.

8.1.2 Investment in private equities include SR 24.15 million (2016: SR 23.93 million) in respect of investees as detailed in note 2 (d) (v).

8.1.3 Sukuks amounting to SR 8 million (2016: SR 13 million) have been issued by reputable local counterparties, carrying profit at variable rates with maturities upto January 2020.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2017

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9. PROPERTY AND EQUIPMENT

Movement in property and equipment during the year ended December 31, 2017 is as follows:

	<u>Leasehold improvements</u>	<u>Furniture, equipments and vehicle</u>	<u>Total</u>
<u>Cost:</u>			
Balance at January 1	3,771,242	4,433,035	8,204,277
Additions	592,626	538,416	1,131,042
Disposals	--	(5,150)	(5,150)
Balance at December 31	<u>4,363,868</u>	<u>4,966,301</u>	<u>9,330,169</u>
<u>Accumulated depreciation:</u>			
Balance at January 1	2,217,827	3,830,282	6,048,109
Charge for the year	426,387	243,890	670,277
Disposals	--	(4,094)	(4,094)
Balance at December 31	<u>2,644,214</u>	<u>4,070,078</u>	<u>6,714,292</u>
<u>Net book value:</u>			
At December 31, 2017	<u>1,719,654</u>	<u>896,223</u>	<u>2,615,877</u>
At December 31, 2016	<u>1,553,415</u>	<u>602,753</u>	<u>2,156,168</u>

10. INTANGIBLE ASSETS

Movement in intangible assets (represented by computer softwares) during the year ended December 31, 2017 is as follows:

	<u>2017</u>	<u>2016</u>
<u>Cost:</u>		
Balance at January 1	2,667,841	2,667,841
Additions	2,025	--
Balance at December 31	<u>2,669,866</u>	<u>2,667,841</u>
<u>Accumulated amortization:</u>		
Balance at January 1	2,512,979	2,102,521
Charge for the year	51,137	410,458
Balance at December 31	<u>2,564,116</u>	<u>2,512,979</u>
<u>Net book value:</u>		
At December 31	<u>105,750</u>	<u>154,862</u>

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Saudi Riyals)

11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>2017</u>	<u>2016</u>
Employee related expenses	25,254,611	21,792,953
Accrued professional fees	934,559	1,639,793
Unearned income	--	3,876,190
Due to related parties (note 17)	4,737,709	4,239,688
Others	3,468,041	2,140,241
	<u>34,394,920</u>	<u>33,688,865</u>

12. SHARE CAPITAL AND DIVIDEND

The share capital of the Company amounting to SR 200 million (2016: SR 200 million) is divided into 20,000,000 shares (2016: 20,000,000) with nominal value of SR 10 per share.

At the balance sheet date, the share capital of the Company is divided as follows:

	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
			(Number of shares)	
Saudi Economic and Development Holding Company	96%	96%	19,200,000	19,200,000
Rushd International Real Estate Company	1%	1%	200,000	200,000
Ehkam International Real Estate Company	1%	1%	200,000	200,000
Ta' adiah for Urban Development Company	1%	1%	200,000	200,000
Ta' aki International Real Estate Company	1%	1%	200,000	200,000
	<u>100%</u>	<u>100%</u>	<u>20,000,000</u>	<u>20,000,000</u>

- 12.1 During the year ended December 31, 2017, the shareholders approved distribution of dividend amounting to SR 10.2 million (SR 0.51 per share) (2016: SR 10 million (SR 0.50 per share)), which was fully paid to the shareholders.

13. STATUTORY RESERVE

In accordance with the Company's Bylaws, the Company sets aside 10% of its net income each year as statutory reserve until such reserve equals to 50% of the share capital. This reserve is currently not available for distribution to the shareholders of the Company.

NOTES TO THE FINANCIAL STATEMENTS

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14. REVENUE

Revenue for the year ended December 31 comprises of the following:

	<i>Note</i>	<u>2017</u>	<u>2016</u>
Income from management and advisory	<i>14.1</i>	128,115,149	123,346,609
Income from investments:	<i>14.2</i>		
- <i>held for trading</i>		1,167,017	748,407
- <i>available for sale</i>		5,209,727	1,188,623
- <i>held to maturity investments and financial instruments held at amortised cost</i>		1,600,605	4,309,797
Total income from financial investments		<u>7,977,349</u>	<u>6,246,827</u>
- <i>rental income from properties</i>		2,979,116	241,642
		<u>10,956,465</u>	<u>6,488,469</u>
		<u>139,071,614</u>	<u>129,835,078</u>

14.1 These represent fees earned from the management of funds established by the Company and fees earned in lieu of investment advisory services under investment management mandates.

14.2 Income from investments includes dividend income, unrealized gains on held for trading investments and profit on investments held at amortised cost.

15. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2017</u>	<u>2016</u>
Professional fees to consultants and executive committee	8,320,601	9,117,092
Traveling expenses	2,667,719	2,456,764
Cross charge for shared services (note 17)	3,300,004	2,767,336
Computer expenses and related maintenance	1,570,652	1,542,379
Rent expense	1,270,307	1,259,189
Depreciation (note 9)	670,277	815,240
Insurance expense	415,507	439,417
Withholding tax	347,292	394,373
Amortization of intangible (note 10)	51,137	410,458
Others	3,407,979	2,181,852
	<u>22,021,475</u>	<u>21,384,100</u>

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16. ZAKAT

(a) Charge for the year

Zakat charge for the year ended December 31 has been calculated on Zakat base, the components of which are as follows:

	<u>2017</u>	<u>2016</u>
Non-current assets	64,165,080	66,824,215
Non-current liability	14,034,728	13,264,308
Opening shareholders' equity	271,645,725	247,476,087
Net income before Zakat	45,230,541	40,546,990

Some of the aforementioned amounts have been adjusted (consistent with Zakat rules) in arriving at the Zakat charge for the year.

Movement in accrued Zakat during the year ended December 31, is as follows:

	<u>2017</u>	<u>2016</u>
As at January 1,	8,187,975	6,693,489
Zakat charge for the year	6,965,776	6,444,447
Payments during the year	(5,993,957)	(4,949,961)
As at December 31,	<u>9,159,794</u>	<u>8,187,975</u>

(b) Zakat status

The Company has obtained the final Zakat certificates for all the years until 2012. Zakat returns for the years 2013- 2016 have also been submitted to GAZT, whereby, GAZT has raised an additional Zakat demand of approximately SR 1.6 million in relation to the year 2015. The Company has filed an appeal against the additional Zakat demand.

17. RELATED PARTY TRANSACTIONS

Transactions with related parties mainly represent advisory and management services rendered to affiliates as well as cross charge for services received from the shareholder in the ordinary course of business on mutually agreed terms and approved by the management of the Company.

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17. RELATED PARTY TRANSACTIONS (continued)

During the year, the Company transacted with the following related parties:

<u>Name</u>	<u>Relationship</u>
Saudi Economic and Development Holding Company	Shareholder
SEDCO Capital Luxembourg S.A	SPE
SEDCO Capital UK Limited	SPE
Hagley Fund IC	SPE
SEDCO Capital Cayman Limited	SPE
SEDCO Capital Real Estate Income Fund I	Fund under management
SEDCO Capital Real Estate Income Fund II	Fund under management
SEDCO Capital Built to Suit Real Estate Fund I	Fund under management
SEDCO Capital Treasury Money Market Fund	Fund under management
SEDCO Capital Saudi Equities Fund I	Fund under management
Elite Flexi Saudi Equities Fund	Fund under management
Milltrust SEDCO MENA Fund	Fund under investment management
SEDCO Capital Private Equity Global Fund IV	Fund under investment management
SEDCO Capital Core Diversified Strategies Fund	Fund under investment management
SEDCO Capital GCC Equities Fund	Fund under investment management
SEDCO Capital Europe Fund I	Fund under investment management
BMF	Affiliate
Elaf Hotels Company	Affiliate
Methak Investment Holding Company	Affiliate
Elaf for Travel and Tourism Company	Affiliate
Rushd International Real Estate Company	Affiliate
Tazweid Almaharat Company	Affiliate
Intimaa Real Estate Services Company	Affiliate
Al Jazirah Equipment Company (Autoworld)	Affiliate
Board of directors	Key management personnel
Executive management of the Company	Key management personnel

The significant related party transactions for the year ended December 31 and balances arising therefrom are as follows:

Remuneration / Other benefits

<u>Transactions with</u>	<u>Amount of transaction</u> <u>during the year</u>		<u>Closing balance</u> <u>receivable / (payable)</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Board of directors	<u>1,562,876</u>	<u>1,327,439</u>	--	--
Executive management of the Company	<u>21,500,000</u>	<u>21,000,000</u>	--	--

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17. RELATED PARTY TRANSACTIONS (continued)

Advisory and management services

<u>Transactions with</u>	<u>Amount of transaction during the year</u>		<u>Closing balance receivable / (payable)</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Saudi Economic and Development Holding Company	45,852,675	39,288,754	14,236,654	6,869,161
Methak Investment Holding Company	5,100,937	5,466,236	1,827,426	755,078
SEDCO Capital Luxembourg S.A	17,659,582	16,496,528	414,681	2,168,934
SEDCO Capital Real Estate Income Fund I	5,577,999	5,577,996	1,446,375	2,940,025
SEDCO Capital Real Estate Income Fund II	6,681,000	12,739,980	1,670,250	7,656,509
SEDCO Capital Built to Suit Real Estate Fund I	3,300,000	--	--	--
BMF	716,680	1,104,361	578,175	764,569
Hagley Fund IC	574,806	634,913	293,588	288,334
Blakelands Fund IC	--	4,272,363	--	--
Milltrust SEDCO MENA Fund	148,566	301,943	15,928	109,200
SEDCO Capital Europe Fund I	7,430,792	3,786,815	243,294	--
SEDCO Capital Treasury Money Market Fund	2,043,097	2,691,752	502,997	1,003,075
SEDCO Capital Saudi Equities Fund I	24,884	44,710	1,559	2,431
SEDCO Capital Global Equity Fund IV	7,500,000	7,500,000	--	--
SEDCO Capital Balanced Fund	2,533,939	2,211,837	717,468	--
SEDCO Capital GCC Equities Fund	737,265	1,282,456	143,598	--
Elite Flexi Saudi Equities Fund	215,884	233,231	76,428	21,711

Expenses borne / payment on behalf

Methak Investment Holding Company	--	259,722	51,299	259,722
SEDCO Capital Real Estate Income Fund I	151,846	--	151,846	--
SEDCO Capital Real Estate Income Fund II	12,498	--	12,498	--
SEDCO Capital Built to Suit Real Estate Fund I	10,750	--	10,750	--
SEDCO Capital Luxembourg S.A	--	--	356,077	356,077
SEDCO Capital Cayman Limited	231,362	--	231,362	--
Rushd International Real Estate Company	7,500	--	7,500	--
SEDCO Capital UK Limited	--	529,418	886,205	529,418

Dividend income

SEDCO Capital Real Estate Income Fund I	314,997	326,253	157,500	163,128
Hagley Fund IC	238,477	330,071	--	25,182
SEDCO Capital Cayman Limited	771,964	--	771,964	--

Due from related parties balance **24,805,422** **23,912,554**

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17. RELATED PARTY TRANSACTIONS (continued)

<u>Transactions with</u>	<u>Nature of transactions</u>	<u>Amount of transaction during the year</u>		<u>Closing balance receivable / (payable)</u>	
Saudi Economic and Development Holding Company	Cross charge for shared services and payments made on behalf	<u>3,300,000</u>	<u>3,002,348</u>	(3,500,187)	(2,873,540)
SEDCO Capital Luxembourg S.A	Operational expenses	<u>1,117,980</u>	<u>795,025</u>	--	(795,025)
Elaf Hotels Company	Accommodation services	<u>196,639</u>	<u>203,557</u>	--	--
SEDCO Capital UK Limited	Advisory services	<u>3,922,469</u>	<u>1,665,468</u>	(1,237,522)	(508,750)
Tazweid Almaharat Company	Service Agreement	<u>90,755</u>	<u>8,650</u>	--	--
Elaf for Travel and Tourism Company	Travel and tourism services	<u>1,464,544</u>	<u>3,719,624</u>	--	(56,223)
Intimaa Real Estate Services Company	Office rent and other services	<u>986,232</u>	<u>960,262</u>	--	--
Al Jazirah Equipment Company (Autoworld)	Transportation expenses	<u>60,364</u>	<u>129,826</u>	--	(6,150)
Due to related parties balance				<u>(4,737,709)</u>	<u>(4,239,688)</u>

18. EMPLOYEES' END OF SERVICE BENEFITS

Movement in employees' end of service benefits during the year ended December 31, is as follows:

	<u>2017</u>	<u>2016</u>
Balance as at January 1,	13,264,308	11,032,641
Charge for the year	2,646,511	2,595,778
Payment during the year	<u>(1,876,091)</u>	<u>(364,111)</u>
Balance as at December 31,	<u>14,034,728</u>	<u>13,264,308</u>

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19. OPERATING LEASE ARRANGEMENTS

	<u>2017</u>	<u>2016</u>
Payments under operating leases recognized as an expense during the year.	<u>1,224,032</u>	<u>1,186,262</u>
Obligation under operating lease due within one year from the balance sheet date	<u>1,276,712</u>	<u>1,192,118</u>

These represent payments made under rental agreement in respect of head office, which is renewed annually.

20. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

The Company's activities expose it to certain financial risks. Such financial risk emanate from various factors that include, but are not limited to market risk, credit risk and liquidity risk.

The Company currently finances its operations through equity and management of working capital with a view to maintain an appropriate mix between various sources of finance to minimise risk. Company's risk management policies and objectives are as follows:

Market risk

This is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

Market risk comprises of currency risk, interest rate risk and other price risk.

Currency risk

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 Arabian Riyals, United States Dollars and Great Britain Pounds. As at the reporting date, the Company is exposed to currency risk in cash and cash equivalents, accounts receivable and financial investments. The Company manages currency risk by regular monitoring of exposures and by the use of appropriate financial instruments where required.

NOTES TO THE FINANCIAL STATEMENTS

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20. FINANCIAL INSTRUMENT AND RISK MANAGEMENT (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. As at the reporting date, the Company's exposure to interest rate risk is represented by murabaha and held to maturity investments which bear floating interest rate. The Company manages interest rate risk by monitoring interest rate exposures and mismatches between interest bearing financial assets and liabilities on a regular basis.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or the factors affecting similar financial instruments traded in the market. As at the reporting date, the Company is exposed to other price risk with respect to financial investments carried at fair value, whereby a 10% change in market values/net asset values would have affected the shareholder's equity for the year by SR + 6.65 million/ - 11 million.

Credit risk

Credit risk is the risk which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. As at the balance sheet date, the Company's maximum exposure to credit risk is represented by the respective carrying values of cash at bank, murabaha investment, accounts and other receivables and held to maturity investments. Cash and bank and murabaha investment have been placed with reputable banks while held to maturity investments and accounts and other receivables pertain to counter parties having sound credit ratings.

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 the inability to sell a financial asset quickly at an amount close to its fair value. To guard against the risk, assets are managed with liquidity in perspective, maintaining a healthy balance of cash and cash equivalents. Moreover, the maturity profile of financial assets and liabilities is monitored on a regular basis to identify mismatches.

21. FAIR VALUES

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 at the balance sheet date, the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2017

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22. BASIC EARNINGS PER SHARE

The earnings per share from net income have been calculated by dividing the net income by the weighted average number of shares outstanding at the year end.

The earnings per share from continuing operations have been calculated by dividing the income from operations after its share of Zakat by the weighted average number of shares outstanding at the year end.

The earnings per share from other operations have been calculated by dividing the loss from other operations over the weighted average number of shares outstanding at the year end.

23. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to comply with the capital requirements set by the Capital Market Authority (CMA) to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base.

During the year ended December 31, 2013, new Prudential Rules (the "rules") were introduced by the CMA pursuant to its Resolution Number 1-40-2012 dated 17/2/1434H corresponding to 30/12/2012G. The rules state that an authorised person shall continually possess a capital base which corresponds to not less than the total of the capital requirements as prescribed under Part 3 of Prudential Rules.

	<u>2017</u>	<u>2016</u>
<i>Capital base:</i>		
Tier I capital	299,893,700	271,490,480
Tier II capital	274,104	--
Total	<u>300,167,804</u>	<u>271,490,480</u>
<i>Minimum capital requirement:</i>		
Credit Risks	145,372,885	94,294,139
Market Risks	13,989,723	11,790,676
Operational Risks	25,201,750	23,933,000
Total	<u>184,564,358</u>	<u>130,017,815</u>
Total capital ratio	1.63	2.09
Surplus in Capital	<u>115,603,446</u>	<u>141,472,665</u>

24. FIDUCIARY ASSETS

As at the balance sheet date, the Company's fiduciary assets (represented by assets under management and advisory) amounted to SR 19.03 billion (2016: SR 17.72 billion).

NOTES TO THE FINANCIAL STATEMENTS

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25. COMPARATIVES

Certain corresponding figures have been reclassified, wherever necessary, for the purpose of conforming to current year presentation.

26. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved and authorized for issue on Jumada Al Thani 25, 1439H, corresponding to March 13, 2018.