MERAK CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the period ended 31 December 2019
together with the
INDEPENDENT AUDITOR'S REPORT

KPMG Al Fozan & Partners
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Licence No. 46/11/323 issued 11/3/1992

Independent auditor's report

To the Shareholders of Merak Capital Company

Opinion

We have audited the financial statements of Merak Capital Company ("the Company"), which comprise the statement of financial position as at 31 December 2019, the statements of statement of Profit or loss and other comprehensive income, changes in equity and cash flows for the period From 31 December 2018 to 31 December 2019, 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 31 December 2019, and its financial performance and its cash flows for the period From 31 December 2018 to 31 December 2019 in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for 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 Auditor's 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 International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements 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, i.e. Board of Directors are responsible for overseeing the Company's financial reporting process.

Independent auditor's report

To the Shareholders of Merak Capital Company (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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, then we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, i.e. the board of directors 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 Merak Capital Company.

For KPMG Al Fozan & Partners
Certified Public Accountants

Fahad Mubarak AlDossari
License No. 469

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محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Riyadh on: 5 Ramadan 1441H
Corresponding to: 28 April 2020

MERAK CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(Saudi Riyals)

	Note	31 December 2019
ASSETS		
Current assets		
Cash and cash equivalents	(5)	**3,568,526**
Prepayments and other current assets	(6)	**468,110**
Total current assets		**4,036,636**
Non-current assets		
Shares convertible into an equity instrument	(7)	**1,501,000**
Total non-current assets		**1,501,000**
Total assets		**5,537,636**
LIABILITIES AND EQUITY		
Current liabilities		
Due to related parties	(8)	**1,005,901**
Provision for Zakat	(9)	**116,814**
Total current liabilities		**1,122,715**
Total liabilities		**1,122,715**
Equity		
Share capital		**5,000,000**
Accumulated losses		**(585,079)**
Total equity		**4,414,921**
Total liabilities and equity		**5,537,636**

The accompanying notes (1) through (15) form an integral part of these financial statements.

MERAK CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the period ended 31 December 2019
(Saudi Riyals)

	Note	For the period from 31 December 2018 to 31 December 2019
General and administrative expenses	(10)	**(468,265)**
Total expenses		**(468,265)**
Loss for the period before zakat		**(468,265)**
Zakat	(9)	**(116,814)**
Net loss for the period		**(585,079)**
Other comprehensive income for the period		**--**
Total other comprehensive income for the period		**--**
Total comprehensive loss for the period		**(585,079)**

The accompanying notes (1) through (15) form an integral part of these financial statements.

MERAK CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
For the period ended 31 December 2019
(Saudi Riyals)

	Share capital	Accumulated losses	Total
Balance as at beginning of the period	**--**	**--**	**--**
Capital paid during the period	5,000,000	--	5,000,000
Net loss for the period	--	(468,265)	(468,265)
Other comprehensive income for the period	--	--	--
Total comprehensive loss for the period	--	(468,265)	(468,265)
Balance as at 31 December 2019	**5,000,000**	**(468,265)**	**4,531,735**

The accompanying notes (1) through (15) form an integral part of these financial statements.

MERAK CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the period ended 31 December 2019
(Saudi Riyals)

	Note	For the period from 31 December 2018 to 31 December 2019
Cash flows from operating activities		
Loss for the period before Zakat		**(468,265)**
Changes in operating assets and liabilities:		
Prepayments and other current assets	(6)	**(468,110)**
Due to related parties	(8)	**1,005,901**
Net cash generated from operating activities		**69.526**
Cash flows from investing activities		
Shares convertible into a equity instrument	(7)	**(1,501,000)**
Net cash used in investing activities		**(1,501,000)**
Cash flow from financing activities		
Share capital		**5,000,000**
Net cash generated from financing activities		**5,000,000**
Net increase in cash and cash equivalents		**3,568,526**
Cash and cash equivalents at beginning of the period		**--**
Cash and cash equivalents at end of the period		**3,568,526**

The accompanying notes (1) through (15) form an integral part of these financial statements.

1. ORGANIZATION AND ITS ACTIVITIES

Merak Capital Company ("the Company") is a Saudi Closed Joint Stock Company incorporated in the city of Riyadh, Kingdom of Saudi Arabia under Commercial Registration No. 1010501220 dated 24 Rabi' I 1440H (corresponding to 31 December 2018).

The principal activities of the Company include managing non-real estate private mutual funds, managing experienced investor portfolios, and advising on securities business under the license of the Capital Market Authority No. 18194-32 dated 3 Rabi' I 1440H (corresponding to 11 November 2018).

1.1 Share capital

The share capital of the Company is SR 5 million divided into 500 shares at a nominal value of SR 10 each. The shareholders acknowledge that the shares have been distributed among them and their value has been completely fulfilled. The following is a statement of the shareholders as at 31 December 2019:

Shareholder	No. of shares	Saudi Riyals
Abdullah bin Abdulaziz Al-Tamami	250,000	2,500,000
Othman bin Abdul Razzaq Al-Hogail	250,000	2,500,000
	500,000	**5,000,000**

The head office of the Company is located in city of Riyadh
3692 Saeed bin Ameer Street
Riyadh - Al Nakheel District 7650-12394
Kingdom of Saudi Arabia

2. BASIS OF PREPARATION

2.1 Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA). No comparative figures have been presented as these are the first financial statements issued by the Company.

2.2 Basis of measurement

These financial statements have been prepared on a historical cost basis, except for measurement of convertible shares at fair value through statement of profit or loss, using the accrual basis of accounting and the going concern concept.

2.3 Functional and presentation currency

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

2.4 Critical accounting estimates and judgements

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the 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 year in which the estimates are revised and in any future years affected.

3. SIGNIFICANT ACCOUNTING POLICIES

a) *Financial instruments*

Recognition and initial measurement
The Company initially recognizes financial assets and financial liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

On initial recognition, the Company measures a financial asset or financial liability at its fair value through statements of profit or loss plus or minus transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in the statement of comprehensive income.

Classification and measurement of financial assets
On initial recognition, a financial asset is classified as measured: at amortized cost, at fair value through other comprehensive income (“FVOCI”) or at fair value through statement of profit or loss (“FVTPL”).

Financial assets at amortized cost
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial asset at FVOCI
A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial assets at fair value through statement of profit or loss (FVTPL)
All other financial assets are classified as measured at FVTPL.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at fair value through Profit & Loss (FVTPL).	These are subsequently measured at fair value. Net gains and losses, including any special commission or dividend income, are recognized in the statement of comprehensive income.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective commission rate method. The amortized cost is reduced by impairment losses. Special commission income, foreign exchange gains and losses and impairment are recognized in the statement of comprehensive income. Any gain or loss on derecognition is recognized in statement of comprehensive income.
Equity investments at FVOCI	These are subsequently measured at fair value. Dividends are recognized as income in the statement of comprehensive income unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Cash and cash equivalents

Cash and cash equivalents comprise of cash at bank, cash in hand and short term highly liquid deposits with an original maturity of three months or less, which are available to the Company without any restrictions. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

c) Accrued expenses and other payables

Accrued expenses and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective commission rate method.

d) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its cash generating unit ("CGU") exceeds its estimated recoverable amount. Impairment losses are recognized in the income statement. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Impairment losses in respect of non-financial assets recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

e) Expenses

Expenses are measured and recognized as a period cost at the time when they are incurred. Expenses related to more than one financial period are allocated over such periods proportionately.

f) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rate at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into SAR at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are also translated into Saudi Riyal at the exchange rate at the reporting date.

Foreign currency differences arising on translation are recognized in the statement of income as net foreign exchange gains or losses, except for those arising on financial instruments at fair value through income statement ("FVTIS"), which are recognized as a component of net gain from financial instruments at FVTIS.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Offsetting

Financial assets and liabilities are off-set and the net cash amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

4.1) A number of amendments and standards are effective for the period beginning on or after 1 January 2020 and earlier application is permitted; however, the Company has not early applied these new amendments and standards in preparing these financial statements and is currently assessing their impact.

Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after 1 January 2020:

a) IFRS 17 'Insurance Contracts' was issued by the International Accounting Standards Board on 18 May 2017 and is effective for periods beginning on or after 1 January 2023.

b) On 31 October 2018, the International Accounting Standards Board issued 'Definition of Material (Amendments to IAS 1 and IAS 8)' to clarify the definition of ‘material’ and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective annual reporting periods beginning on or after 1 January 2020.

c) On 26 September 2019, the International Accounting Standards Board issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments are effective annual reporting periods beginning on or after 1 January 2020.

d) Together with the revised 'Conceptual Framework' published in March 2018, the International Accounting Standards Board also issued 'Amendments to References to the Conceptual Framework in IFRS Standards'. The amendments are effective for annual periods beginning on or after 1 January 2020.

e) On 22 October 2018, the International Accounting Standards Board issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

4.2) IFRS 16 ‘Leases’:
IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right-of-use assets representing its right to use the underlying asset and lease liabilities representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17 ‘Leases’, IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC-15 ‘Operating Leases—Incentives’ and SIC-27 ‘Evaluating the Substance of Transactions Involving the Legal Form of a Lease’.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 ‘revenue from contracts with customers’ at or before the date of initial application of IFRS 16.

The management of the Company believes that there is no material impact on the financial statements as a result of applying the standard, as the term of the lease contract is less than a financial year and it was canceled in the subsequent period.

(Saudi Riyals)

5. CASH AND CASH EQUIVALENTS

	31 December 2019
Current accounts with banks	**3,568,526**
	3,568,526

6. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2019
Prepaid rent	**378,720**
Others	**89,390**
	468,110

7. SHARES CONVERTIBLE INTO A EQUITY INSTRUMENT

On 20 November 2019, the Company invested in shares convertible into a equity instrument in DC Ventures LTD Information Technology Company, which is a company under construction. As at 31 December 2019, the fair value of the shares amounted to US $ 400 thousand, equivalent to SR 1.5 million, provided that the Company's incorporation and converting of shares into equity instruments are completed within the eighteen months following the date of purchase.

8. DUE TO RELATED PARTIES

Transactions with related parties during the period are transactions with shareholders. As at 31 December 2019, the balance due to related parties is as follows:

			Amount of transactions	Balance
Related parties	**Relationship**	**Nature of transactions**	**31 December 2019**	**31 December 2019**
Abdullah bin Abdulaziz Al-Tamami	Shareholder	Payments on behalf	**506,692**	**506,692**
Othman bin Abdul Razzaq Al-Hogail	Shareholder	Payments on behalf	**499,208**	**499,208**
				1,005,901

(Saudi Riyals)

9. ZAKAT

a) Zakat status

These financial statements are the first financial statements prepared by the Company. Accordingly, no Zakat returns have been filed to date.

b) Zakat base

Significant components of Zakat base as at 31 December are as follows:

	2019
Net loss for the period	**(468,265)**
Adjustments on net income	**--**
Net adjusted income (a)	**(468,265)**
Add:	
Share capital	**5,000,000**
Zakat base (b)	**4,531,735**
Total - considering the lunar year @ 365/354	**4,672,552**
Zakat base (a) or (b) whichever is higher	**4,672,552**
Zakat payable @ 2.5%	**116,814**

c) Provision for Zakat

The movement in Zakat provision for the year ended 31 December was as follows:

	2019
Balance at the opening	**--**
Provided during the period	**116,814**
Payments made during the period	**--**
Balance as at 31 December	**116,814**

10. GENERAL AND ADMINISTRATIVE EXPENSES

	31 December 2019
Professional and legal advice fees	**194.418**
Fees for obtaining licenses from the Capital Market Authority	**117,500**
Government fees, commissions, and subscriptions	**56,473**
Marketing expenses	**27,675**
Rents	**27,500**
Stationery and publications	**10,678**
Others	**34.021**
	468,265

11. FINANCIAL RISK MANAGEMENT

The Company is exposed to the following risks arising from financial instruments:

- Market risk
- Credit risk
- Liquidity risk
- Operational risk

Market risk

a) *Foreign exchange risk*
Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Company's transactions are principally in Saudi Arabian Riyals (SAR) and US Dollar (USD). As the SAR is pegged to the USD, the Company is not exposed to any significant foreign exchange risk.

b) *Commission rate risk*
Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of financial instruments.

c) *Price risk*
Price risk is the risk that the value of the Company's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements.

The Company's price risk exposure relates to its investment in quoted equities and mutual funds units whose value will fluctuate as a result of changes in market prices. The Company closely monitors the price movement of its listed financial instruments.

Credit risk
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 is exposed to credit risk mainly arising from cash and cash equivalents, margin finance receivables and other receivables.

The Company's risk management policies and processes are designed to identify and analyze risk, to set appropriate limits and controls, and to monitor the risks and adherence to limits by means of timely and reliable management information data.

The maximum exposure to credit risk for the Company was as follows:

	2019
Cash at banks	**3,568,526**
Prepayments and other current assets	**468,110**
	4,036,636

(Saudi Riyals)

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The Company's approach to managing liquidity is to ensure it always has sufficient liquidity (or access to sufficient liquidity) to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable costs or risking damage to the Company's reputation.

The contractual maturity profile of the financial assets and financial liabilities of the Company as at 31 December 2019 was as follows:

	Within 3 months	**3-12 months**	**More than 1 year**	**No fixed maturity**	**Total**
Cash and cash equivalents	3,568,526	--	--	--	**3,568,526**
Shares convertible into a equity instrument	--	--	1,501,000	--	**1,501,000**
Prepayments and other current assets	--	468,110	--	--	**468,110**
Total Financial Assets	**3,568,526**	**468,110**	**1,501,000**		**5.537.636**
Due to related parties	--	1,005,901	--	--	**1,005,901**
Total Financial Assets	**--**	**1,005,901**	**--**	--	**1,005,901**

Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, people, technology and infrastructure supporting the Company's activities either internally or externally at the Company's service provider level and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

Operational risk is a distinct risk category which the Company manages within acceptable levels through sound operational risk management practices that are part of the day-to-day responsibilities of management at all levels. The objective of managing operational risk is to ensure control of the Company's resources by protecting the assets of the Company and minimizing the potential for financial loss.

The Company's risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with operations. Qualitative and quantitative methodologies and tools are used to identify and assess operational risks and to provide management with information for determining appropriate mitigating factors. These tools include a loss database of operational risks events categorized according to CMA Prudential Rules, business lines, operational risk event types and a risk and control assessment process to analyze business activities and identify operational risks related to those activities. The management of operational risk has a key objective of minimizing the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss. High impact risks and issues of critical importance are reported to the Board of Directors which then set resolution priorities.

(Saudi Riyals)

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under the definition of the fair value, it represents the presumption that the Company is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value for financial instruments traded in active markets is based on quoted market prices at the close of trading on the financial reporting date. Instruments for which no sales was reported on the valuation day are valued at the most recent bid price. Investments in mutual funds are valued at the unit price prevailing on the last valuation day of the year.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When measuring the fair value the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The values of investments measured at FVTIS and FVOCI are based on quoted market prices in active markets, and are therefore classified within Level 1 in the fair value hierarchy. The Company does not adjust the quoted prices for these instruments.

Carrying value of other financial assets such as cash and cash equivalents, margin finance receivables, other receivables and financial liabilities approximate their fair value and are classified as level 3.

There were no transfers between levels of fair value hierarchy during the year ended 31 December 2019.

Financial instruments by category
The classification of financial assets by category are included in the below table.

31 December 2019	**Amortized cost**	**FVTIS**	**FVOCI**
Cash and cash equivalents	**3,568,526**	**--**	**--**
Other receivables	**468,110**	**--**	**--**
Shares convertible into a equity instrument	**--**	**1,501,000**	**--**
Total	**4,036,636**	**1,501,000**	**--**

As at the statement of financial position date, all financial liabilities were measured at amortized cost.

(Saudi Riyals)

13. CAPITAL MANAGEMENT

The Company's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard the Company's ability to continue as a going concern, and to maintain a strong capital bases.

The Capital Market Authority has issued Prudential Rules (the "Rules") dated 30 December 2012 (corresponding to 17 Safar 1434H). According to the Rules, CMA prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology. According to this methodology, the Company calculated the minimum capital as follows:

Description	**As at 31 December 2019**
Capital base:	
Tier-1 Capital (a)	**4,414,921**
Tier-2 Capital (a)	**--**
	4,414,921
Minimum Capital Requirement	
Credit risk	**428,236**
Operational risk	**117,066**
Market risk	**71,371**
Total (b)	**616,673**
Surplus in capital	**3,798,248**
Capital ratio	**7,16%**

a) Capital Base of the Company comprise of:
- Tier-1 capital consists of paid-up share capital and accumulated losses.
- Tier-2 capital consists of unrealized gain of investments at fair value through statement of comprehensive income.

b) The minimum capital requirements for credit and operational risk are calculated as per the requirements specified in the Rules.

c) The Company's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard the Company's ability to continue as a going concern, and to maintain a strong capital basis.

14. EVENTS AFTER THE END OF THE REPORTING PERIOD

The existence of novel coronavirus (COVID-19) was confirmed in early 2020 and has spread across the globe including the Kingdom of Saudi Arabia, causing disruptions to businesses and economic activity. The Company considers this outbreak to be a non-adjusting post financial position event. As the situation is fluid and rapidly evolving, the management does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company.

15. APPROVAL OF FINANCIAL STATEMENTS

The financial statements appearing on pages (1) to (16) have been approved by the shareholders on 5 Ramadan 1441H (corresponding to 28 April 2020).