MUSHARAKA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
AND INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF MUSHARAKA CAPITAL COMPANY

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Musharaka Capital Company (the "Company") which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 year then ended in accordance with International Financial Reporting Standards that are 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 Company's financial statements and we have fulfilled our 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 and Regulations for Companies and the Company's Bylaw 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. the Board of Directors, are responsible for overseeing the Company's financial reporting process.

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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE SHAREHOLDERS OF MUSHARAKA CAPITAL COMPANY

Report on the Audit of the Financial Statements

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 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 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 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.

BAKER TILLY MKM & CO.
Certified Public Accountants

Majid Muneer Alnemer
License No. 381

Al-Khobar 24 Rajab 1441
19 March 2020

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MUSHARAKA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	***2019***	*2018*
		SR	*SR*
ASSETS			
Property and equipment	5	**8,846,822**	2,356,487
Investment in unconsolidated subsidiaries	6	**20,000**	20,000
Investment in associates	7	**50,563,765**	45,759,801
Financial assets at fair value through profit or loss	8	**5,683,785**	5,221,711
Prepayments and other receivables	9	**1,454,373**	1,624,467
Accounts receivables	10	**9,938,787**	7,068,824
Cash and cash equivalents		**9,256,227**	15,282,215
TOTAL ASSETS		**85,763,759**	77,333,505
LIABILITIE AND SHAREHOLDERS' EQUITY			
Liabilities			
Lease liability	11	**6,337,954**	-
Employee termination benefits	12	**1,612,242**	1,204,939
Accrued expenses and other payables	13	**968,100**	1,629,918
Short-term borrowings	14	**8,786,200**	11,000,000
Zakat payable	15	**622,069**	741,178
Total liabilities		**18,326,565**	14,576,035
Shareholders' Equity			
Capital	16	**65,000,000**	65,000,000
Statutory reserve	17	**213,252**	-
Retained earnings (accumulated losses)		**2,223,942**	(2,242,530)
Total shareholders' equity		**67,437,194**	62,757,470
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**85,763,759**	77,333,505

The accompanying notes form an integral part of these financial statements

MUSHARAKA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	***2019***	*2018*
		SR	*SR*
Income			
Revenue from service contracts with customers	18	**15,548,659**	20,594,598
Unrealized gain (loss) on financial assets at fair value through profit or loss	8	**437,234**	(1,223,533)
Realized gain (loss) on financial assets at fair value through profit or loss	8	**119,270**	(90,250)
Dividends income		**5,380**	18,012
Share of results of associates	7	**2,244,406**	2,025,077
Other income	21	**1,012,500**	1,460,934
		19,367,449	22,784,838
Expenses			
Investment in an associate writen off	7	**(1,500,000)**	-
Marketing expenses		**(157,325)**	(287,547)
General and administrative expenses	19	**(14,030,169)**	(13,448,749)
Finance costs	20	**(877,303)**	(49,278)
Income before zakat		**2,802,652**	8,999,264
Zakat	15	**(670,136)**	(1,311,321)
NET INCOME FOR THE YEAR		**2,132,516**	7,687,943
Other Comprehensive Income (OCI)			
OCI that will not be reclassified to profit or loss in subsequent years:			
Remeasurements of defined benefit liability	12	**(64,365)**	(40,011)
Share of OCI of associate	7	**14,213**	480
Other comprehensive loss for the year		**(50,152)**	(39,531)
Total comprehensive income for the year		**2,082,364**	7,648,412

The accompanying notes form an integral part of these financial statements

MUSHARAKA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Capital	*Statutory reserve*	*(Accumulated losses) Retained earning*	*Total equity*
	SR	***SR***	***SR***	***SR***
For the year ended 31 December 2019:				
As at 1 January 2019	**65,000,000**	**-**	**(2,242,530)**	**62,757,470**
Impact of IFRS 16 adoption (note 2.2 and note 7)	**-**	**-**	**2,597,360**	**2,597,360**
As at 1 January 2019 (adjusted)	**65,000,000**	**-**	**354,830**	**65,354,830**
Profit for the year	**-**	**-**	**2,132,516**	**2,132,516**
Other comprehensive loss	**-**	**-**	**(50,152)**	**(50,152)**
Total comprehensive income	**-**	**-**	**2,082,364**	**2,082,364**
Transfer to statutory reserve	**-**	**213,252**	**(213,252)**	**-**
As at 31 December 2019	**65,000,000**	**213,252**	**2,223,942**	**67,437,194**
For the year ended 31 December 2018:				
As at 1 January 2018	65,000,000	-	(9,890,942)	55,109,058
Profit for the year	-	-	7,687,943	7,687,943
Other comprehensive loss	-	-	(39,531)	(39,531)
Total comprehensive income	-	-	7,648,412	7,648,412
As at 31 December 2018	65,000,000	-	(2,242,530)	62,757,470

The accompanying notes form an integral part of these financial statements

MUSHARAKA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	*2018*
	SR	*SR*
OPERATING ACTIVITIES		
Income before zakat	**2,802,652**	8,999,264
Adjustments for non-cash items:		
Depreciation	**1,290,531**	392,173
Provision for expected credit loss	**(208,026)**	(106,709)
Property and equipment written off	**57,002**	65,582
Investment in an associate writen off	**1,500,000**	-
Unrealized (gain) loss on financial assets at fair value through profit or loss	**(437,234)**	1,223,533
Realized (gain) loss on financial assets at fair value through profit or loss	**(119,270)**	90,250
Share of results of associates, net	**(2,244,406)**	(2,025,077)
Finance costs	**877,303**	49,278
End of service indemnities	**379,115**	321,233
	3,897,667	9,009,527
Changes in working capital:		
Accounts receivables	**(2,661,937)**	(2,330,649)
Prepayments and other receivables	**(953,410)**	57,145
Accrued expenses and other payables	**(661,818)**	658,830
	(379,498)	7,394,853
Zakat paid	**(789,245)**	(1,908,798)
Finance cost paid	**(637,182)**	-
End of service indemnities paid	**(77,002)**	(36,243)
Net cash flows (used in) from operating activities	**(1,882,927)**	5,449,812
INVESTING ACTIVITIES		
Additions to financial assets at fair value through profit or loss	**(9,548,992)**	(11,390,250)
Proceeds from sale of financial assets at fair value through profit or loss	**9,643,422**	14,058,415
Additions to investment in associates	**(5,070,418)**	(9,455,386)
Proceed from disposal/redemption of an associate	**2,000,000**	-
Dividends received from an associate	**2,745,937**	2,310,000
Purchase of property and equipment	**(690,070)**	(1,566,846)
Investment in unconsolidated subsidiaries	**-**	(10,000)
Disposal of unconsolidated subsidiaries	**-**	5,000
Net cash flows used in investing activities	**(920,121)**	(6,049,067)
FINANCING ACTIVITIES		
Payment of lease obligation	**(1,009,140)**	-
(Repayments) proceeds from short-term borrowings	**(2,213,800)**	11,000,000
Net cash flows (used in) from financing activities	**(3,222,940)**	11,000,000
Net change in cash and cash equivalents	**(6,025,988)**	10,400,745
Cash and cash equivalents at the beginning of the year	**15,282,215**	4,881,470
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**9,256,227**	15,282,215
Non-cash transactions:		
Impact of IFRS 16 (note 2.2 and note 7)	**2,597,360**	-
Dividends receivable	**-**	1,123,504

The accompanying notes form an integral part of these financial statements

1 - COMPANY INFORMATION

Musharaka Capital Company (the "Company") is engaged in dealing as a principal, managing mutual funds, clients portfolio management and providing consulting, arranging and custody services for securities business under license No. 13169-27 dated 2 Dhul-Hijjah, 1434 H (October 7, 2013) issued by the Capital Market Authority ("CMA"). The Company's operations are conducted principally in Saudi Arabia.

The Company is a closed Saudi Joint Stock Company incorporated under Ministry of Commerce and Investment resolution number 73/K dated 29 Rabi' I, 1435 H (January 30, 2014). The Company is registered in Kingdom of Saudi Arabia, operating under commercial registration ("CR") No. 2051056409 issued in Al Khobar on 23 Rabi' II, 1435 H (February 20, 2014). The registered address of the Company is P.O. Box 712, Al Khobar 31952, Kingdom of Saudi Arabia.

The share capital of the Company amounting to SR 65,000,000 consists of 6,500,000 shares of SR 10 each. The shareholders of the Company along with their shareholdings as at 31 December 2019 and 2018 are as follows:

Name of shareholder	Number of shares		Amount		Percentage	
	2019	*2018*	***2019***	*2018*	***2019***	*2018*
			SR	*SR*	**%**	**%**
Al Rajhi Ekhwan Group Company	1,820,000	1,820,000	18,200,000	18,200,000	28%	28%
Atar Holding Company	1,690,000	1,690,000	16,900,000	16,900,000	26%	26%
Abdullah M. Al Shaikh Trading Company	1,300,000	1,300,000	13,000,000	13,000,000	20%	20%
Mr. Mohammad Bin Abbood Bin Talib Bamardoof Al Amoudi	-	1,300,000	-	13,000,000	-	20%
Yaqeen holding Company	1,137,500	-	11,375,000	-	17.5%	-
Mr. Ebrahim Bin Fahad Bin Mohammad Al Assaf	552,500	390,000	5,525,000	3,900,000	8.5%	6%
	6,500,000	6,500,000	**65,000,000**	65,000,000	**100%**	100%

2 - BASIS OF PREPARATION AND CHANGES TO THE COMPANY'S ACCOUNTING POLICIES

2.1 - BASIS OF PREPARATION

The financial statements of the Company for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards as adopted in the Kingdom of Saudi Arabia and other standards and pronouncements adopted by the Saudi Organization for Certified Public Accountants (SOCPA).

The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss ("FVTPL"). The financial statements are presented in Saudi Riyals which is also the functional currency of the Company and all values are rounded to the nearest Saudi Riyal (SR), except when otherwise indicated.

2.2 - NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE COMPANY

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the last annual financial statements.

The Company has applied IFRS 16 effective from 1 January 2019. The nature and effect of changes as a result of adoption of these new accounting standards are described below.

2 - BASIS OF PREPARATION AND CHANGES TO THE COMPANY'S ACCOUNTING POLICIES (Continued)

2.2 - NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE COMPANY (Continued)

IFRS 16 *'Leases'*

The International Accounting Standard Board (IASB) published the new standard on leases, IFRS 16 'Leases' on 13 January 2016. The rules and definitions of IFRS 16 supersede 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. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect on initial application is recognised in accumulated losses at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

The Company has also elected not to apply the requirements of IFRS 16 on short-term leases and leases of low-value assets. Short-term leases are leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option. Leases of low-value assets comprise small items (i.e. below SR 18,750) relating to property and equipment.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Company now assesses whether a contract is, or contains, a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange of consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient to apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Company has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

As a lessee

The Company leases office building. As a lessee, the Company previously classified leases as operating or finance leases based on its assessments of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases - i.e. these leases are on balance sheet.

Significant accounting policies

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

2 - BASIS OF PREPARATION AND CHANGES TO THE COMPANY'S ACCOUNTING POLICIES (Continued)

2.2 - NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE COMPANY (Continued)

IFRS 16 *'Leases'* (Continued)

Significant accounting policies (Continued)

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in assessments of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessments of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Transition

Previously, the Company classified property lease as an operating lease under IAS 17. This lease typically run for a period of 9 years. Following lease include an option to renew the lease for an additional 1 year after the end of the non-cancellable period.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Accounted for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.
- Excluded initial direct costs from measuring the right of use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- By class of underlying asset, not to separate non-lease components from lease components and instead account for each lease component and any associated non-lease components as single lease component.

Additionally, on transition, the Company accounted for its share on impact of IFRS 16 of its associate in the statement of changes in shareholders equity (note 7).

The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:

	Note	*As at 31 December 2018*	*Effect of adoption*	***As at 1 January 2019***
		SR	SR	**SR**
Effect on total assets				
Investment in associate	7	38,694,833	2,597,360	41,292,193
Right of use asset	5	-	7,147,798	7,147,798
		38,694,833	9,745,158	48,439,991
Effect on total liabilities				
Lease liabilities	11	-	7,147,798	7,147,798
		-	7,147,798	7,147,798
Net effect of adjustment on statement of changes in shareholders' equity		62,757,470	2,597,360	65,354,830

3 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1 - Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recogized in the financial statements:

Determination of control over investees

The Company acts as Fund Manager for number of investment funds. Determining whether the Company controls/has significant influence on such funds or not, usually requires management judgment on the level of its decision making power over the relevant activities of the funds. Management analyses its role as an investor and as an agent in reaching out to a conclusion on its level of control/influence and the appropriate accounting treatment for investments in each fund seperately.

3.2 - Estimates and assumptions

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

Impairment of investment in an associate

Impairment exists when the carrying value of an investment in associate exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to premium paid on investment in associate upon acquisition.

Long-term assumptions for employees' benefits

Employees’ defined benefit liabilities and benefit payments represent obligations that will be settled in the future and require assumptions to project obligations and fair values of plan assets, if any. Management is required to make further assumptions regarding variables such as discount rates, rate of salary increase and return on assets, mortality rates, employment turnover and future healthcare costs. Periodically, management of the Company consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee defined benefit costs incurred.

Options for extending and terminating lease contracts

- Extending and Terminating Options are included in a number of lease agreements. These terms are used to increase operational flexibility in terms of contract management. Most of the extending and terminating options are exercisable by both the Company and the Lessee.

- When determining the tenancy contract duration, the Company’s management takes into account all the facts and conditions that create an economic incentive to exercise the option of extension or not to exercise the option of termination. The extension options (or periods following termination options) are included only in the term of the tenancy contract if the lease contract reasonably confirms that the lease agreement is extended (or not finalized). The assessment is reviewed in the case of an important event or a significant change in the circumstances affecting the evaluation that are under the control of the lessee.

3 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

3.2 - Estimates and assumptions (Continued)

Lease Payments Discount

Rental payments are discounted using the Company's incremental borrowing rate (IBR). The Company’s management has applied judgments and estimates to determine the incremental borrowing rate at the inception of the lease.

3.3 - SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Company in preparing its financial statements:

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- Leasehold improvements 4 to 10 years
- Furniture, fixtures and office equipment 4 years
- Vehicles 4 years
- Right of use asset 9 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

Work in Progress is stated at cost incurred until the asset is ready for its intended use, thereafter, this cost is capitalized on the related assets. This include the cost of contractors, services and capital advances. Work in Progress is not depreciated.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

INVESTMENT IN ASSOCIATES

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Company’s investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company’s share of net assets of the associate since the acquisition date.

An investment is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment, any difference between the cost of the investment and the Company's share of the net fair value of the investee’s identifiable assets and liabilities is accounted for as follows:

(a) Goodwill relating to an associate is included in the carrying amount of the investment and not tested for impairment separately.

(b) Any excess of the entity’s share of the net fair value of the investee’s identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity’s share of the associate's profit or loss in the period in which the investment is acquired.

3.3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENT IN ASSOCIATES (Continued)

The statement of profit or loss reflects the Company's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Company's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the loss as 'Share of profit of an associate and in the statement of profit or loss.

Upon loss of significant influence, the Company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the investment upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognised in profit or loss.

FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at amortised cost

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes other receivables.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition

A financial asset is primarily derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

3.3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL ASSETS (Continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For accounts receivables and due from related parties, the Company applies a simplified approach in calculating ECLs. Therefore, the Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include accrued expenses and other payables, short term borrowings and lease liability.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss

The Company does not have financial liabilities at fair value through profit or loss.

Loans and borrowings and payables

This is the category most relevant to the Company. After initial recognition, loans and borrowings and payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

3.3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in

PROVISIONS

General

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost

EMPLOYEE TERMINATION BENEFITS

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

FAIR VALUE MEASUREMENT

The Company measures financial instruments, such as financial derivatives, at fair value at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset’s highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3.3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAIR VALUE MEASUREMENT (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

REVENUE FROM SERVICE CONTRACTS WITH CUSTOMERS

Revenue from service contracts with customers is recognised when control of the services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

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

• Fee from assets management services (including funds) is recognized when such services are rendered.
• Fee from subscription is recognized upon subscription to the fund.
• Custody fee is recognized upfront and amortized over the period of the service.
• Advisory and arranging services are accrued on time proportionate basis, as the services are rendered.
• Dividends income is recognized when the right to receive dividends is established.

ACCOUNTS RECEIVABLES

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets.

EXPENSES

Marketing expenses are those that are arising from the Company's efforts underlying marketing activities. All other expenses are classified as general and administrative expenses.

ZAKAT AND TAX

Zakat

The Company provide for zakat in accordance with the regulations of the General Authority of Zakat and Tax (GAZT). The provision is charged to the statement of profit or loss.

Uncertain zakat positions

Differences that may arise at the finalization of an assessment are accounted for when the assessment is finalized with GAZT.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax, except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- Receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

3.3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCIES

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company at the spot rate ruling at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

4 - STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 Business Combinations.
- Amendments to IAS 1 and IAS 8.
- IFRS 17 Insurance Contracts.

5 - PROPERTY AND EQUIPMENT

	Company owned						
	Leasehold improvements	***Furniture, fixtures and office equipment***	***Vehicles***	***Capital work in progress***	***Sub total***	***Right of use building***	***Total***
	SR	***SR***	***SR***	***SR***	***SR***	***SR***	***SR***
Cost:							
At 1 January 2018	177,092	1,095,396	90,836	680,370	2,043,694	-	2,043,694
Additions	-	778,306	-	788,540	1,566,846	-	1,566,846
Disposals	(177,092)	(30,275)	-	-	(207,367)	-	(207,367)
Reclassification	1,411,908	-	-	(1,411,908)	-	-	-
At 31 December 2018	1,411,908	1,843,427	90,836	57,002	3,403,173	-	3,403,173
Impact of IFRS 16 (note 2.2)	-	-	-	-	-	**7,147,798**	**7,147,798**
Additions	**29,219**	**74,374**	-	**586,477**	**690,070**	-	**690,070**
Writeoff	-	-	-	**(57,002)**	**(57,002)**	-	**(57,002)**
At 31 December 2019	**1,441,127**	**1,917,801**	**90,836**	**586,477**	**4,036,241**	**7,147,798**	**11,184,039**
Accumulated depreciation :							
At 1 January 2018	91,119	671,115	34,064	-	796,298	-	796,298
Charge for the year	138,054	231,410	22,709	-	392,173	-	392,173
Disposals	(111,511)	(30,274)	-	-	(141,785)	-	(141,785)
At 31 December 2018	117,662	872,251	56,773	-	1,046,686	-	1,046,686
Charge for the year	**330,617**	**143,010**	**22,705**	-	**496,332**	**794,199**	**1,290,531**
At 31 December 2019	**448,279**	**1,015,261**	**79,478**	-	**1,543,018**	**794,199**	**2,337,217**
Net book values:							
At 31 December 2019	**992,848**	**902,540**	**11,358**	**586,477**	**2,493,223**	**6,353,599**	**8,846,822**
At 31 December 2018	1,294,246	971,176	34,063	57,002	2,356,487	-	2,356,487

- During the year capital work in progress represents amounts paid for the implementation of new enterprise resource program (ERP) system.

6 - INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

	Effective ownership interest	***2019***	*2018*
	%	***SR***	*SR*
Tanseeq Al-Ola (A)	100	**10,000**	10,000
Tanseeq al Taqa (B)	100	**10,000**	10,000
		20,000	20,000

A - Tanseeq Al-Ola Trading Company (A Saudi Limited Liability Company) ("Tanseeq") is registered in Al Khobar under commercial registration number (2051213542) dated 3 Ramadan 1438H corresponding to 28 May 2017. The main activities of the Tanseeq are to purchase, sale and lease of land and real estate, real estate development and investment activities, building construction, and export, commercial and marketing commitments on behalf of others. The company has received a waiver letter from Mr. Ibrahim Al Assaf waiving his ownership interest of 5% to the Company. The entity did not conduct any operating activities from inception till the reporting date.

B - Tanseeq Al Taqa Investment Company (A Single Person Company Limited) ("Al Taqa") is registered in Al Khobar under commercial registration number (2051223419) dated 20 Rabi'I 1440H corresponding to 29 November 2018. The main activities of Al Taqa are to designs, installs, maintains, and inspects solar photovoltaic systems. Operation and maintenance of pumping stations and pipelines. The entity did not conduct any operating activities from inception till the reporting date.

7 - INVESTMENT IN ASSOCIATES

	2019	*2018*
	SR	*SR*
Musharaka REIT Fund (A)	**46,849,731**	38,694,833
ARMAS Company Limited (B)	**3,714,034**	3,564,968
Kafaat Al Taqa Company (C)	**-**	3,500,000
	50,563,765	45,759,801

	2019	*2018*
Ownership Interest	***%***	*%*
Musharaka REIT Fund (A)	**5.27**	4.56
ARMAS (B)	**25.00**	25.00
Kafaat Al Taqa Company (C)	**-**	26.00

The movement of investment in associates during the years ended 31 December is as follows:

	2019	*2018*
	SR	*SR*
At 1 January	**45,759,801**	37,712,362
Impact of IFRS 16 adoption (note 2.2 and note 7)	**2,597,360**	-
Additions	**5,070,418**	9,455,386
Disposal	**(2,000,000)**	-
Write off	**(1,500,000)**	-
Share of profit	**2,244,406**	2,025,077
Share of OCI	**14,213**	480
Dividends	**(1,622,433)**	(3,433,504)
At 31 December	**50,563,765**	45,759,801

7 - INVESTMENT IN ASSOCIATES (Continued)

A. Musharaka REIT Fund

Musharaka REIT Fund ("the REIT"), is a closed-end public real estate investment fund, managed by the Company. The primary investment objective is to invest in developed real estates qualified to generate periodic rental income. The REIT is listed and publicly traded in TADAWUL in compliance with real estate investment funds regulations and real estate investment traded funds instructions issued by the CMA. The number of units of the REIT is 88 million units out of which Musharaka owns 4.64 million units (2018: 4 million units). Out of the Company's investment in Musharaka REIT, units of the value of SR 27.5 million are pledged against short term loan (note 14).

The following table summarizes the financial information of REIT as included in its financial statements. The table also reconciles the summarised financial information to the carrying amount of the Company's interest in REIT.

	2019	*2018*
	SR	*SR*
Total assets, including cash and cash equivalents of SR 13 million (2018: SR 35 million)	**1,273,887,151**	1,057,665,310
Total liabilities, including long term loan of SR 185 million (2018: SR 160 million)	**366,662,776**	209,034,149
Equity	**907,224,375**	848,631,161
Company's share in equity	**46,849,731**	38,694,833
Company's carrying amount of the investment	**46,849,731**	38,694,833

Summarised statement of profit or loss and other comprehensive income of REIT for the year ended 31 December:

	2019	*2018*
	SR	*SR*
Revenue	**94,648,476**	95,320,831
Depreciation, impairment and amortization	**23,912,643**	34,156,531
Interest expense	**20,251,088**	4,323,617
Profit for the year and other comprehensive income	**40,085,365**	40,260,262
Company's share of total comprehensive income	**2,109,553**	2,814,642

The movement in the interest in REIT is as follows:

	2019	*2018*
	SR	*SR*
At 1 January	**38,694,833**	33,358,309
Impact of IFRS 16	**2,597,360**	-
Additions	**5,070,418**	5,955,386
Share of profit	**2,109,553**	2,814,642
Dividends received	**(1,622,433)**	(3,433,504)
At 31 December	**46,849,731**	38,694,833

7 - INVESTMENT IN ASSOCIATES (Continued)

B. ARMAS Company limited

ARMAS Company Limited (A Saudi Limited Liability Company) ("ARMAS") is registered in Al Dammam under commercial registration number (2050028436) dated 7 Rabi I 1415H corresponding to 13 August 1994. ARMAS is engaged in the wholesale and retail trade in marble, industrial granite, wooden pallets, and wooden and metal furniture. Investment in ARMAS is owned by a subsidiary who waived its right in the favor of the Company.

	2019	*2018*
	SR	*SR*
Total assets, including cash and cash equivalents of SR 30,482 (2018: SR 65,016)	**9,658,488**	10,193,527
Total liabilities	**5,002,353**	6,133,655
Equity	**4,656,135**	4,059,872
Company's share in equity, 25%	**1,164,034**	1,014,968
Reconciliation of the carrying amount of ARMAS		
Company's share in equity at 25%	**1,164,034**	1,014,968
Additional capital contribution from Musharaka	**775,000**	775,000
Premium paid on investment upon acquisition	**1,775,000**	1,775,000
	3,714,034	3,564,968

Summarised statement of profit or loss and other comprehensive income of ARMAS for the year ended 31 December:

	2019	*2018*
	SR	*SR*
Revenue	**8,385,484**	6,453,100
Depreciation	**690,172**	713,120
Total comprehensive income (loss)	**596,263**	(3,156,338)
Company's share of total comprehensive income (loss)	**149,066**	(789,085)

The movement in the interest in ARMAS is as follows:

	2019	*2018*
	SR	*SR*
At 1 January	**3,564,968**	4,354,053
Share of profit (loss)	**134,853**	(789,565)
Share of OCI	**14,213**	480
At 31 December	**3,714,034**	3,564,968

C. Kafaat Al Taqa Company

The Company has paid the binding commitment subscription for acquiring the 25.93% share in Kafaat Al Taqa Company (a company under formation) for ETA-max project. ETA-max Company ("ETA Max") is a Jordanian company working in the solar power industry. Musharaka Capital Company signed an exclusive Memorandum of Understanding ("MoU") with ETA-max to acquire an equity stake and establish the associate in Saudi Arabia to perform the same business model for the Saudi market.

During the year the Company has terminated the above mentioned MoU and has decided not to proceed with this business opportunity. The Company recovered SR 2 million from the investment and wrote off the remaining balance amount of SR 1.5 million.

8 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Represents the Company's investment in Musharaka IPO fund units and managed stocks portfolio. Movement is as follows:

	2019	*2018*
	SR	*SR*
1 January	**5,221,711**	9,203,659
Additions	**9,548,992**	11,390,250
Disposals	**(9,524,152)**	(14,148,665)
Unrealized gain (loss) on financial assets at FVTPL	**437,234**	(1,223,533)
31 December	**5,683,785**	5,221,711

9 - PREPAYMENTS AND OTHER RECEIVABLES

	2019	*2018*
	SR	*SR*
Advance against land purchase	**1,000,000**	-
Employee receivable	**188,898**	206,380
Dividend receivable	**-**	1,123,504
Others	**265,475**	294,583
	1,454,373	1,624,467

10 - ACCOUNTS RECEIVABLES

	2019	*2018*
	SR	*SR*
Accounts receivables - related parties (note 22)	**9,852,442**	6,980,283
Accounts receivables - third party	**294,371**	301,250
Allowance for expected credit losses	**(208,026)**	(212,709)
	9,938,787	7,068,824

The movement in the provision for impairment is as follows:

	2019	*2018*
	SR	*SR*
1 January	**212,709**	106,000
Additions	**208,026**	106,709
Write-off	**(212,709)**	-
31 December	**208,026**	212,709

An aged analysis of account receivables as at 31 December 2019 is as follows:

	Past due but not impaired				
Neither past due nor impaired	**< 180 days**	**181-270 days**	**270-365 days**	**> 365 days**	**Total**
SR	***SR***	***SR***	***SR***	***SR***	***SR***
9,819,443	**78,750**	**26,250**	**14,344**	**208,026**	**10,146,813**

10 - ACCOUNTS RECEIVABLES (Continued)

An aged analysis of account receivables as at 31 December 2018 is as follows:

	Past due but not impaired				
Neither past due nor impaired	< 180 days	181-270 days	270-365 days	> 365 days	Total
SR	*SR*	*SR*	*SR*	*SR*	*SR*
6,793,824	-	-	275,000	212,709	7,281,533

11 - LEASES

The Company has entered in to a lease agreement for an office. Information about leases for which the Company is a lessee is presented below:

Lease liabilities

	2019	*2018*
	SR	*SR*
Gross lease liability at 1 January	**9,082,260**	-
less: paid during the year	**(1,009,140)**	-
	8,073,120	-
less: deferred interest	**(1,735,166)**	-
	6,337,954	-

	Less than one year	***Two to five years***	***More than five years***	***Total***
	SR	***SR***	***SR***	***SR***
Gross lease liabilities	**1,009,140**	**4,036,560**	**3,027,420**	**8,073,120**
Finance charges	**(370,844)**	**(1,070,253)**	**(294,069)**	**(1,735,166)**
	638,296	**2,966,307**	**2,733,351**	**6,337,954**

12 - EMPLOYEE TERMINATION BENEFITS

The movement in employees' termination benefits, a defined benefit plan, during the year is as follows:

	2019	*2018*
	SR	*SR*
1 January	**1,204,939**	850,794
Expense charged to profit or loss	**419,940**	350,377
Actuarial remeasurement charged to OCI	**64,365**	40,011
Payments	**(77,002)**	(36,243)
31 December	**1,612,242**	1,204,939

12 - EMPLOYEE TERMINATION BENEFITS (Continued)

The expense charged to profit or loss comprise of:

	2019	*2018*
	SR	*SR*
Current service cost	**379,115**	321,233
Interest cost	**40,825**	29,144
Cost recognized in profit or loss	**419,940**	350,377

Significant actuarial assumptions	***As at 31 December***	
	2019	*2018*
Discount factor used	**3.20%**	3.50%
Salary increase rate	**2%**	2%
Rates of employee turnover	**Moderate**	Moderate

Sensitivity analysis of key actuarial assumptions are as follows:

	31 December 2019		*31 December 2018*	
	%	***SR***	*%*	*SR*
Discount rate				
Increase	+ 1%	**116,404**	+ 1%	87,904
Decrease	-1%	**132,742**	-1%	100,059
Salary growth rate				
Increase	+ 1%	**133,017**	+ 1%	100,578
Decrease	- 1%	**118,778**	- 1%	90,023

13 - ACCRUED EXPENSES AND OTHER PAYABLES

	2019	*2018*
	SR	*SR*
Accrued expenses	**842,598**	1,322,625
VAT payable	**125,502**	307,293
	968,100	1,629,918

14 - SHORT TERM BORROWINGS

Short- term borrowings comprise the following:

	2019	*2018*
	SR	*SR*
Short-term bank loan	**8,786,200**	11,000,000

This represents short-term bank loan obtained from Alinma Investment at fixed rate of 6%. The Company will settle this loan in December 2020. This loan has been obtained by pledging securities in Musharaka REIT Fund with a maximum exposure of SR 27.5 million.

The carrying values of the short-term borrowings are denominated in Saudi Riyals.

15 - ZAKAT

Basis for zakat:
The Company is subject to zakat. Zakat is payable at 2.5% of the greater of the approximate zakat base and adjusted profit. The significant components of the zakat base under zakat and income tax regulation principally comprise shareholders' equity, provisions at the beginning of year, long-term borrowings and adjusted net income, less a deduction for the net book value of long-term assets.

Zakat charged to the statement of profit or loss:

	2019	*2018*
	SR	*SR*
Current zakat charges	**622,069**	741,178
Adjustments in respect of zakat of previous year	**48,067**	570,143
	670,136	1,311,321

The movement in the zakat payable is as follows:

	2019	*2018*
	SR	*SR*
1 January	**741,178**	1,338,655
Charge for the year	**670,136**	1,311,321
Payments	**(789,245)**	(1,908,798)
31 December	**622,069**	741,178

Status of certificates and assessments:
The Company has filed its zakat returns and obtained zakat certificates up to the year ended 31 December 2018. The Company has not received any final assessment since inception as these are still under review by the GAZT.

16 - CAPITAL

The capital of the Company as at 31 December 2019 comprised 6,500,000 shares stated at SR 10 per share (2018: the same).

17 - STATUTORY RESERVE

As required by the Saudi Arabian Regulations for Companies, the Company transfers 10% of its profit for the year to the statutory reserve until the reserve equals 30% of capital. The reserve is not available for distribution as dividends.

18 - REVENUE FROM SERVICE CONTRACTS WITH CUSTOMERS

	2019	*2018*
	SR	*SR*
Funds management fee	**15,415,023**	12,172,212
Funds custody fee	**-**	22,636
Advisory and arranging services	**133,636**	8,399,750
	15,548,659	20,594,598

19 - GENERAL AND ADMINISTRATIVE EXPENSES

	2019	*2018*
	SR	*SR*
Employee benefits	**9,604,119**	8,457,534
Depreciation	**1,290,531**	392,173
Professional services	**546,024**	649,014
Bonus	**630,942**	717,029
Travel	**408,131**	340,188
Government expenses	**325,682**	332,592
Utilities	**317,079**	199,227
Allowance for expected credit losses	**208,026**	106,709
Printing and stationary	**85,553**	132,558
Rent	**45,425**	1,365,486
Other	**568,657**	756,239
	14,030,169	13,448,749

20 - FINANCE COSTS

	2019	*2018*
	SR	*SR*
Interest on borrowings	**637,182**	20,134
Interest on finance lease liability	**199,296**	-
Interest on employee benefits obligation	**40,825**	29,144
	877,303	49,278

21 - OTHER INCOME

During the year the Company has received transaction fees for an amount of SR 1,012,500 (2018: SR 1,460,934) from Musharaka REIT Fund.

22 - RELATED PARTY TRANSACTIONS

Related parties include the Company's shareholders, managed funds, associates and affiliated companies, directors and key personnel of the Company. Terms and conditions of these transactions are approved by the Company's management.

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

Name	**Relationship**
Musharaka IPO Fund	Managed Fund
Musharaka REIT Fund	Associate
ARMAS	Associate
Mr. Ibrahim Al Assaf	Shareholder / CEO
Somou Holding Company and its subsidiaries	Affiliate

22 - RELATED PARTY TRANSACTIONS (Continued)

The following table provides the total amount of material transactions that have been entered into with related parties:

	2019	*2018*
	SR	*SR*
Management fees	**(15,415,023)**	(12,172,212)
Transaction fees	**(1,012,500)**	(1,460,934)
Rent paid	**1,009,140**	917,400
Key management personnel remuneration	**2,009,457**	2,330,017

Due from related parties:

The above transactions resulted in the following balances with related parties at 31 December:

	2019	*2018*
Name of the party	***SR***	*SR*
Musharaka REIT Fund	**9,842,191**	6,969,138
Musharaka IPO Fund	**10,251**	11,145
	9,852,442	6,980,283

23 - FAIR VALUES AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

23.1 - Fair value measurements of financial instruments

The following table shows the carrying amounts and fair values of financial assets, other than cash and cash equivalents, and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	31 December 2019						
	Carrying amount			*Fair value*			
	Fair value	*Amortised cost*	*Total*	*Level 1*	*Level 2*	*Level 3*	*Total*
	SR	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*
Financial assets							
Financial assets at FVTPL	**5,683,785**	-	**5,683,785**	**5,683,785**	-	-	**5,683,785**
Accounts receivables	-	**9,938,787**	**9,938,787**	-	-	-	-
Cash and cash equivalents	-	**9,256,227**	**9,256,227**	-	-	-	-
	5,683,785	**19,195,014**	**24,878,799**	**5,683,785**	-	-	**5,683,785**
Financial liabilities							
Short-term borrowings	-	**8,786,200**	**8,786,200**	-	-	-	-
Accrued expenses and other payables	-	**968,100**	**968,100**	-	-	-	-
Lease liability	-	**6,337,954**	**6,337,954**	-	-	-	-
	-	**16,092,254**	**16,092,254**	-	-	-	-

23 - FAIR VALUES AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (Continued)

23.1 - Fair value measurements of financial instruments (Continued)

	31 December 2018						
	Carrying amount			*Fair value*			
	Fair value	*Amortised cost*	*Total*	*Level 1*	*Level 2*	*Level 3*	*Total*
	SR	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*
Financial assets							
Financial assets at FVTPL	5,221,711	-	5,221,711	5,221,711	-	-	5,221,711
Accounts receivables	-	7,068,824	7,068,824	-	-	-	-
Cash and cash equivalents	-	15,282,215	15,282,215	-	-	-	-
	5,221,711	22,351,039	27,572,750	5,221,711	-	-	5,221,711
Financial liabilities							
Short-term borrowings	-	11,000,000	11,000,000	-	-	-	-
Accrued expenses and other payables	-	1,629,918	1,629,918	-	-	-	-
	-	12,629,918	12,629,918	-	-	-	-

23 - FAIR VALUES AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (Continued)

23.2 - Risk Management of Financial Instruments

The Company's activities expose it to a variety of financial risks, credit risk, liquidity risk and market price risk.

Credit Risk:
Credit risk is the risk that one party to financial instruments will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk on its bank balances and account receivables as follows.

	2019	*2018*
	SR	*SR*
Cash and cash equivalents	**9,256,227**	15,282,215
Accounts receivables	**10,146,813**	7,281,533
	19,403,040	22,563,748

The carrying amount of financial assets represents the maximum credit exposure.

Bank balances are held with banks with 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. Following are the contractual maturities at the end of the reporting period of financial liabilities.

	31 December 2019			
	Carrying amount	***Less than 1 year***	***1 year to 5 years***	***More than 5 years***
	SR	***SR***	***SR***	***SR***
Financial Liabilities				
Short-term borrowings	**8,786,200**	**8,786,200**	**-**	**-**
Accrued expenses and other payables	**968,100**	**968,100**	**-**	**-**
Lease liability	**6,337,954**	**638,296**	**2,966,307**	**2,733,351**
	16,092,254	**10,392,596**	**2,966,307**	**2,733,351**

	31 December 2018			
	Carrying amount	*Less than 1 year*	*1 year to 5 years*	*More than 5 years*
	SR	*SR*	*SR*	*SR*
Financial liabilities				
Short-term borrowings	11,000,000	11,000,000	-	-
Accrued expenses and other payables	1,629,918	1,629,918	-	-
	12,629,918	12,629,918	-	-

Liquidity risk is managed by monitoring on a regular basis that sufficient funds and credit facilities are available to meet the Company's future commitments.

Market Risk:
Market price risk is the risk that value of a financial instrument will fluctuate as a result of changes in market prices, such as foreign exchange rates and interest rates, and will affect the Company's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

23 - FAIR VALUES AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (Continued)

23.2 - Risk Management of Financial Instruments (Continued)

Currency Risk:
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that's not the Company's currency. The Company's transactions are principally in Saudi Riyals. Management believes that currency risk to the Company is not material.

Interest Rate Risk:
Interest rate risk is the exposure associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's results of operations and operating cash flows are substantially independent of changes in market interest rates as the Company has no variable rate interest-bearing assets and liabilities.

Management monitors the changes in interest rates and believes that interest rate risks to the Company are not significant.

24 - ASSETS UNDER MANAGEMENT

Assets under management outstanding at the end of the year in respect of mutual funds amounted to SR 1,280 million (2018: SR. 1,065 million). Consistent with its accounting policy, such balances are not included in the Company's financial statements as these are held by the Company in fiduciary capacity.

25 - CAPITAL ADEQUACY

In accordance with Article 74(b) of the Prudential Rules issued by the CMA (the "Rules"), given below are the disclosures of the capital base, minimum capital requirement and total capital ratio as at December 31, 2019 and 2018:

	2019	*2018*
Capital Base:	***SR '000***	*SR '000*
Tier 1 Capital	**67,437**	61,534
Tier 2 Capital	**-**	-
Total Capital Base	**67,437**	61,534

	2019	*2018*
Minimum Capital Requirements:	***SR '000***	*SR '000*
Market Risk	**29**	17
Credit Risk	**34,735**	29,584
Operational Risk	**4,119**	3,434
Total Minimum Capital Requirement	**38,883**	33,035

Capital Adequacy Ratio:

Total Capital Ratio (times)	**1.73**	1.86
Tier 1 Capital Ratio (times)	**1.73**	1.86
Surplus in Capital	**28,554**	28,499

25 - CAPITAL ADEQUACY (Continued)

a) The above information has been extracted from the Company's annual Capital Adequacy Model for the year ended 31 December 2019 to be submitted to CMA and for the year ended 31 December 2018 as was submitted to CMA.

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

c) The Capital Base consists of Tier 1 Capital and Tier 2 Capital calculated as per Article 4 and 5 of the Rules, respectively. The minimum capital requirements for market, credit and operational risks are calculated as per the requirements specified in Part 3 of the Rules.

d) The Company is required to maintain adequate capital as specified in the Rules. The capital adequacy ratio shall not be less than 1.

e) Certain information as required by Pillar Ill of the Prudential Rules will be made available to the public on the Company's website (www.musharakacapital.com), however, this information is not subject to review or audit by the external auditors of the Company.

26 - DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Company's Board of Directors on 24 Rajab 1441 H corresponding to 19 March 2020.