

Itqan Capital
(A Closed Saudi Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2013

AUDITORS' REPORT TO THE SHAREHOLDERS OF ITQAN CAPITAL (A SAUDI CLOSED JOINT STOCK COMPANY)

Scope of audit

We have audited the accompanying balance sheet of Itqan Capital (A Saudi Closed Joint Stock Company) ("the Company") as at 31 December 2013, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion

In our opinion, the financial statements taken as a whole:

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2013 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young



Ahmed I. Reda
Certified Public Accountant
Licence No. 356



9 Rabie Thani 1435 H
9 February 2014

Jeddah

Itqan Capital (A Closed Saudi Joint Stock Company)

BALANCE SHEET

As at 31 December 2013

	<i>Note</i>	2013 SR	2012 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	28,678,032	12,127,449
Investments in units of real estate and investment funds	4	81,595,210	6,180,640
Prepaid expenses and other assets	5	3,098,715	3,784,181
TOTAL CURRENT ASSETS		113,371,957	22,092,270
NON-CURRENT ASSETS			
Investment in associated real estate funds	6	34,861,827	31,194,822
Investment in available for sale securities	7	4,441,232	8,552,917
Investment in an unconsolidated subsidiary	8	99,000	99,000
Fixed assets, net	9	1,922,820	2,894,218
TOTAL NON-CURRENT ASSET		41,324,879	42,740,957
TOTAL ASSETS		154,696,836	64,833,227
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accrued expenses and other payables	10	4,291,738	4,238,146
Zakat payable	11	233,596	399,672
TOTAL CURRENT LIABILITIES		4,525,334	4,637,818
NON-CURRENT LIABILITIES			
Subordinated loan from shareholders	12	100,000,000	-
Provision of employees end of service benefits		1,533,118	1,283,242
TOTAL NON-CURRENT LIABILITIES		101,533,118	1,283,242
TOTAL LIABILITIES		106,058,452	5,921,060
SHAREHOLDERS' EQUITY			
Share capital	13	73,417,900	200,000,000
Unrealized gain from revaluation of investments		888,466	155,258
Accumulated losses		(25,667,982)	(141,243,091)
TOTAL SHAREHOLDERS' EQUITY		48,638,384	58,912,167
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		154,696,836	64,833,227

The attached notes 1 to 20 form part of these financial statements.

Itqan Capital (A Closed Saudi Joint Stock Company)**STATEMENT OF INCOME**

For the year ended 31 December 2013

	<i>Note</i>	2013 SR	2012 SR
REVENUE			
Operating revenue	15	<u>6,049,259</u>	<u>2,964,167</u>
Total revenue		<u>6,049,259</u>	<u>2,964,167</u>
OPERATING COSTS			
Employees cost		(5,406,453)	(5,707,585)
Operating cost		<u>(1,093,860)</u>	<u>(1,477,708)</u>
Total operating costs	15	<u>(6,500,313)</u>	<u>(7,185,293)</u>
Gross loss		(451,054)	(4,221,126)
General and administrative expenses	16	<u>(10,299,671)</u>	<u>(10,139,297)</u>
Net loss from main operations		<u>(10,750,725)</u>	<u>(14,360,423)</u>
Other income		-	99,101
NET LOSS FOR THE YEAR		<u><u>(10,750,725)</u></u>	<u><u>(14,261,322)</u></u>
Loss per share:			
From main operations	17	<u>(0.63)</u>	<u>(0.84)</u>
From net loss for the year	17	<u>(0.63)</u>	<u>(0.84)</u>
Weighted average number of shares outstanding during the year (share)	17	<u>17,052,198</u>	<u>17,052,198</u>

The attached notes 1 to 20 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 SR	2012 SR
	<i>Note</i>	
OPERATING ACTIVITIES		
Net loss for the year	(10,750,725)	(14,261,322)
Adjustments for:		
Depreciation	1,091,681	1,220,355
Gain on sale of fixed assets	(12,000)	(39,825)
Provision of employees end of service benefits	438,526	375,811
Amortization of Sukuk premium	-	6,492
Company's share in net income of associated real estate funds	(1,819,823)	(194,822)
	<u>(11,052,341)</u>	<u>(12,893,311)</u>
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	736,052	(229,669)
Accrued expenses and other payables	53,592	(962,159)
Employees end of service benefits paid	(188,650)	(515,204)
Zakat paid	(422,342)	(1,911,182)
	<u>(10,873,689)</u>	<u>(16,511,525)</u>
INVESTING ACTIVITIES		
Purchase of fixed assets	(170,869)	(1,539,968)
Proceeds from sale of fixed assets	12,000	47,689
Investment in an unconsolidated subsidiary	-	(99,000)
Investment in associated real estate fund	(1,847,182)	(31,000,000)
Investments in units of real estate fund	5,721,210	(5,721,210)
Investments in Sukuk	-	6,270,000
Investments in available for sale securities	4,844,893	(8,381,391)
	<u>8,560,052</u>	<u>(40,423,880)</u>
FINANCE ACTIVITIES		
Subordinated loan from shareholders	100,000,000	-
	<u>100,000,000</u>	<u>-</u>
Net cash from finance activities	<u>100,000,000</u>	<u>-</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>97,686,363</u>	<u>(56,935,405)</u>
Cash and cash equivalents at the beginning of the year	12,586,879	69,522,284
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>110,273,242</u></u>	<u><u>12,586,879</u></u>

Itqan Capital (A Closed Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2013

	<i>Note</i>	2013 SR	2012 SR
Additional non-cash information			
Net change in fair value of investment securities available for sale		733,208	155,796
Non-current assets held for sale transferred to current assets		50,586	-
Capital reduction by the accumulated losses		126,582,100	-
For the purpose of the cash flows, cash and cash equivalent at year end comprises the following items:			
Cash and cash equivalents	3	28,678,032	12,127,449
Cash invested in highly liquid mutual funds	4	81,595,210	459,430
		110,273,242	12,586,879

The attached notes 1 to 20 form part of these financial statements.

Itqan Capital (A Closed Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2013

	<i>Share capital SR</i>	<i>Unrealized (loss)/gain from revaluation of investments SR</i>	<i>Accumulated losses SR</i>	<i>Total SR</i>
Balance at 31 December 2011	200,000,000	(538)	(126,582,097)	73,417,365
Net change in fair value	-	155,796	-	155,796
Loss for the year	-	-	(14,261,322)	(14,261,322)
Zakat	-	-	(399,672)	(399,672)
Balance at 31 December 2012	200,000,000	155,258	(141,243,091)	58,912,167
Net change in fair value	-	733,208	-	733,208
Capital reduction (note 13)	(126,582,100)	-	126,582,100	-
Loss for the year	-	-	(10,750,725)	(10,750,725)
Zakat	-	-	(256,266)	(256,266)
Balance at 31 December 2013	73,417,900	888,466	(25,667,982)	48,638,384

The attached notes 1 to 20 form part of these financial statements.

1 ACTIVITIES

Itqan Capital (the "Company") is a Closed Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration No. 4030167335 dated 16 Safar 1428H (corresponding to 6 March 2007) and the Capital Market Authority (CMA) license number 37-07058 according to the decision of the authority number 9-17-2007 dated 21 Rabi Awwal 1428 H (corresponding to 9 April 2007). The Company was permitted to commence operation on 23 Rabi Thani 1429 H (corresponding to 29 April 2008). The Company is located in Jeddah, Nahda District, King Abdulaziz Road, P. O. Box 8021 Postal code 21482.

The objectives of the Company are as follows:

- Establishing/managing of investment funds/portfolios.
- Arranging.
- Custody for registration procedures and arrangement of investment funds and portfolio management.
- Acting as principal and under writer.
- Providing consultancy on securities

All investment products provided by the Company are in accordance with the Islamic Shari'a and certified by the Company's Shari'a consultant.

The financial statements have been approved by the Board of Directors on 9 Rabie Thani 1435H, (corresponding to 9 February 2014).

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia. The financial statements was prepared in Saudi Riyals as it is the functional currency of the Company.

The significant accounting policies adopted are as follows:

Accounting convention

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of securities available for sale investments and investments in funds.

Use of estimate

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affects the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Cash and cash equivalents

For the purposes of preparing the cash flows statement, cash and cash equivalents consists of cash and cash equivalents and investments in highly liquid mutual funds that are readily convertible into cash within a short period. Cash and cash equivalent consists of bank balances and investments in short term murabaha that are readily convertible into known amounts of cash and with original maturity of three months or less.

Murabaha investments

Murabaha investments are stated at cost plus profit. Profit is accounted for on accrual basis.

Investments in real estate and investment funds units

Investments in investment funds are stated at unit prices prevailing at the end of the period. Changes in unit price are included in the statement of income. Valuation of investment funds is made by the fund managers.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in available for sale securities

These represent investments which are neither bought with the intention of being held to maturity nor for trading purposes. Such investments are stated at fair value. Changes in fair value are credited or charged to the statement of changes in shareholders' equity. Where there is objective evidence that investments may be impaired, the estimated recoverable amount of those investments is determined and any impairment loss for the difference between the recoverable amount and the carrying amount is recognised in the statement of income.

Investment in associated real estate funds

Investment in associated real estate funds is accounted for under the equity method. Associated real estate funds are funds over which the Company exercises significant influence. Investment in associated real estate funds are recognized in the balance sheet at cost plus post-acquisition changes in the Company's share of the net assets of the associated real estate funds less any impairment based on the latest financial statements of the associated funds as at 31 December of each year. The income statement reflects the Company's share of the results of its associates.

Unrealized profit and loss arising from inter-company transactions are eliminated to the extent of the Company's shareholding in the associated funds.

Dividend payments are recognized when received and credited to investment account.

Investment in a subsidiary

The subsidiary is a company in which Itqan Capital has, directly or indirectly, a long-term investment comprising an interest of more than 50% in the voting rights and/or over which it exerts control. This investment is recorded at cost as the subsidiary company does not have any commercial activity. Therefore it was not been consolidated (note 8).

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of fixed assets is depreciated on a straight-line basis over the estimated useful lives of the assets.

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease.

Expenditure for repair and maintenance are charged to income. Betterments that increase the value or materially extend the life of the related assets are capitalized.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the income statement. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for services received, whether billed by the supplier or not.

Provisions

Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans

Loans and borrowings are recognised of the value of proceeds received by the Company.

Zakat and Income Tax

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulations. The liability will be charged to retained earnings, accordingly, Zakat and Income tax paid are credited to retained earnings, additional amount, if any, that may become due on finalisation of an assessment are recorded in the year in which the assessment is finalised.

Employees' end of service benefits

Provision is made for amounts payable under the Saudi Arabian Labor Law applicable to employees' accumulated periods of service at the balance sheet date.

Revenue recognition

- * Operating income from investment banking services is recognized when the services are rendered and related invoices are issued to customers in accordance with contract terms.
- * Income from asset management is recognized periodically according to predetermined due dates.
- * Income from Murabaha investment is recognized on an accrual basis from disbursement date to due date.
- * Dividends from investment in available for sale securities and real estate funds are recognized when declared.

Expenses

Due to the nature of the Company's activities expenses are classified to operating costs and general and administrative expenses.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Segmental reporting

A segment is a basic component of the Company that is engaged either in selling products or providing services (a business segment) or in selling products or providing services within a particular economic environment (a geographic segment) which is subject to risks and rewards that are different from those of other segments. Due to the nature of its business, the Company issuing business segment reporting.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

3 CASH AND CASH EQUIVALENTS

	2013 SR	2012 SR
Murabaha placements (see note below)	26,435,262	-
Current accounts	2,242,770	12,127,449
	<u>28,678,032</u>	<u>12,127,449</u>

The Company investments in short term murabaha with original maturity of three months or less are kept with a local bank.

Itqan Capital (A Closed Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2013

4 INVESTMENT IN REAL ESTATE AND INVESTMENT FUNDS UNITS.

	<i>2013</i> <i>SR</i>	<i>2012</i> <i>SR</i>
Investment in mutual fund units (see note below)	81,595,210	459,430
Investment in real estate fund units	-	5,721,210
	<u>81,595,210</u>	<u>6,180,640</u>

A) Investment in mutual fund units

	<i>2013</i> <i>SR</i>	<i>2012</i> <i>SR</i>
Cost:		
Balance at the beginning of the year	6,180,640	63,856,902
Additions during the year	152,356,900	1,900,000
Redemptions during the year	(77,571,935)	(65,303,428)
Balance at 31 December	<u>80,965,605</u>	<u>453,474</u>
Change in fair value:		
Unrealised gain during the year	866,405	317,527
Realised gain during the year	(236,800)	(311,571)
Balance at 31 December	<u>629,605</u>	<u>5,956</u>
Total at 31 December	<u>81,595,210</u>	<u>459,430</u>

The investment has been evaluated by the fund managers on 31 December.

5 PREPAID EXPENSES AND OTHER ASSETS

	<i>2013</i> <i>SR</i>	<i>2012</i> <i>SR</i>
Prepaid expenses	431,449	396,838
Employees receivables	13,740	39,671
Amounts due from related parties (note 19)	732,947	1,524,219
Letter of guarantee	1,837,875	1,820,168
Fixed asset intended for sales	50,586	-
Accrued income	12,126	-
Other assets	19,992	3,285
	<u>3,098,715</u>	<u>3,784,181</u>

6 INVESTMENT IN ASSOCIATED REAL ESTATE FUNDS

	2013		2012	
	<i>Percentage of ownership %</i>	<i>Amount SR</i>	<i>Percentage of ownership %</i>	<i>Amount SR</i>
REIF – I Real Estate Income Fund (see note “A” below)	37.47	26,820,042	41.33	31,194,822
REIF – II Real Estate Income Fund (see note “B” below)	19.90	8,041,785	-	-
		<u>34,861,827</u>		<u>31,194,822</u>

The movement of the investment in the associated real estate funds is as follows:

	2013 SR	2012 SR
A) REIF – I Real Estate Income Fund		
Balance at the beginning of the year	31,194,822	-
Additions during the year	-	31,000,000
Dividends	(3,378,750)	-
Disposals during the year	(2,774,068)	-
Company’s share in the profit	1,778,038	194,822
Balance at 31 December	<u>26,820,042</u>	<u>31,194,822</u>
B) REIF – II Real Estate Income Fund		
Balance at the beginning of the year	-	-
Additions during the year	10,000,000	-
Disposals during the year	(2,000,000)	-
Company’s share in the profit	41,785	-
Balance at 31 December	<u>8,041,785</u>	<u>-</u>

The associated real estate funds activities include purchasing income-generating real estate properties (residential, educational, commercial, medical, offices), making necessary improvements on the properties and then leasing them during the fund term which ranges between 4 to 5 years to generate operating profits, then the properties are sold with the objective of generating capital gains for the fund’s unit holders.

Itqan Capital (A Closed Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2013

7 INVESTMENT IN AVAILABLE FOR SALE SECURITIES

	2013 SR	2012 SR
Cost:		
Balance at beginning of the year	8,397,659	16,268
Additions	381,297	8,381,391
Disposals	(5,226,190)	-
Balance at 31 December	<u>3,552,766</u>	<u>8,397,659</u>
Change in Fair Value:		
Balance at beginning of the year	155,258	(538)
Unrealized gain from revaluation of investments	733,208	155,796
Balance at 31 December	<u>888,466</u>	<u>155,258</u>
Balance at 31 December	<u><u>4,441,232</u></u>	<u><u>8,552,917</u></u>

8 INVESTMENT IN UNCONSOLIDATED SUBSIDIARY

The investment in unconsolidated subsidiary represents an investment at 99% of the capital of Reif Al Nakhil Limited Company. The subsidiary was registered on 16 Shawal 1433H (corresponding to 3 September 2012) for the purpose of registering the ownership of the properties owned by funds managed by Itqan Capital in its name.

The subsidiaries do not have any trading activity, therefore, it is not consolidated and the investment is recorded at cost.

9 FIXED ASSETS

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Equipment	5 years
Computers and software	3 - 4 years
Furniture and fixtures	10 years
Motor vehicles	4 years
Leasehold improvements	The shorter of 5 years or lease period

Itqan Capital (A Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

9 FIXED ASSETS (continued)

	Equipment SR	Computers and software SR	Furniture and fixtures SR	Motor vehicles SR	Leasehold improvements SR	Total 2013 SR	Total 2012 SR
Cost:							
At the beginning of the year	768,467	3,857,149	2,012,165	172,350	1,460,207	8,270,338	6,964,601
Reclassification	(18,900)	18,900	-	-	-	-	-
Additions	749,567	3,876,049	2,012,165	172,350	1,460,207	8,270,338	6,964,601
Disposals	4,225 (501,430)	72,793 (627,575)	17,851 (1,382,891)	51,350 (26,000)	24,650	170,869 (2,537,896)	1,539,968 (234,231)
At the end of the year	252,362	3,321,267	647,125	197,700	1,484,857	5,903,311	8,270,338
Depreciation and impairment:							
At the beginning of the year	740,083	2,711,364	1,529,784	63,387	331,502	5,376,120	4,382,132
Charge for the year	1,504	633,104	106,349	54,132	296,592	1,091,681	1,220,355
Disposals	(499,737)	(627,240)	(1,334,333)	(26,000)	-	(2,487,310)	(226,367)
At the end of the year	241,850	2,717,228	301,800	91,519	628,094	3,980,491	5,376,120
Net book value							
At 31 December 2013	10,512	604,039	345,325	106,181	856,763	1,922,820	
At 31 December 2012	9,484	1,164,685	482,381	108,963	1,128,705		2,894,218

Itqan Capital (A Closed Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2013

9 FIXED ASSETS NET (continued)

A) Depreciation charge for the year is allocated as follows:

	<i>2013</i> <i>SR</i>	<i>2012</i> <i>SR</i>
Operating cost	239,785	594,836
General and administrative expenses (note 16)	851,896	625,519
	<u>1,091,681</u>	<u>1,220,355</u>

10 ACCRUED EXPENSES AND OTHER PAYABLES

	<i>2013</i> <i>SR</i>	<i>2012</i> <i>SR</i>
Employees' bonus and salaries	25,452	39,826
Accrued vacation	762,983	856,885
Other claims	2,901,581	2,901,581
Other payables	601,722	439,854
	<u>4,291,738</u>	<u>4,238,146</u>

11 ZAKAT PAYABLE

Charge for the year

	<i>2013</i> <i>SR</i>	<i>2012</i> <i>SR</i>
Current year provision	233,596	399,672
Prior year adjustment	22,670	-
	<u>256,266</u>	<u>399,672</u>

The zakat provision for the year ended 31 December is based on the following:

	<i>2013</i> <i>SR</i>	<i>2012</i> <i>SR</i>
Shareholders' equity at 1 January	58,756,909	65,521,220
Opening allowances and other adjustments	3,973,503	1,269,619
Book value of long term assets	(41,324,879)	(38,055,473)
	<u>21,405,533</u>	<u>28,735,366</u>
Adjusted loss for the year	(10,935,580)	(12,748,472)
Zakat base	<u>10,469,953</u>	<u>15,986,894</u>

The differences between the financial and the zakatable results for the year ended on 31 December are mainly due to relevant adjustments in accordance with the rules and regulations of the Department of Zakat and Income Tax.

11 ZAKAT (continued)

The movement in the zakat provision for the year was as follows:

	2013 SR	2012 SR
At the beginning of the year	399,672	1,911,182
Provided during the year	233,596	399,672
Prior year adjustment	22,670	-
Paid during the year	(422,342)	(1,911,182)
At the end of the year	<u>233,596</u>	<u>399,672</u>

Status of assessments

The Company received a restricted zakat certificate for its first fiscal period ended on 31 December 2008 and the years ended on 31 December 2009, 31 December 2010, 31 December 2011 and 31 December 2012.

The company has received an assessment of its first fiscal period ended 31 December 2008, revealing differences and request additional zakat. The company appealed the mentioned assessment to the preliminary committee which approved certain assessment items resulting in reduction of the payable zakat to the amount of SR 1,820,168. The company has raised an appeal to the High Appeal Committee (HAC) and submitted a bank guarantee letter with the mentioned amount. The (HAC) has not yet issued its resolution until the date of issuing the financial statements. The assessment for the years from 2009 to 2012 has not yet been completed by the department of zakat and Income Tax.

Income Tax

Tax was not charged to the foreign shareholders for the year ended 31 December 2013 as the company incurred net losses for this year.

12 SUBORDINATED LOAN FORM SHAREHOLDERS

The company has obtained loan of SR 100,000,000 from Albaraka Islamic Bank – Bahrain (shareholder). The loan is repayable through a lump-sum payment on 28 February 2018. The loan is free from any commission or interest. Pursuant to the loan agreement, the nominal value of the loan will be converted into shares subjects to approval of all the shareholders otherwise the loan will be repaid at the maturity date (note 19).

13 SHARE CAPITAL

The authorized capital is SR 73,417,900 divided into 7,341,790 shares of SR 10 each (2012: SR 360,000,000). The total paid-up capital as at 31 December 2013 is SR 73,417,900 (2012: SR 200,000,000).

On 16 Ramadan 1434H (corresponding to 25 July 2013), the shareholders of the company in their extraordinary general assembly resolved to decrease the company issued capital from SR 360,000,000 to SR 200,000,000 by discharging the shareholders obligation of paying the unpaid share amount. They also decided to decrease the company's capital by cancelling 12,658,100 shares out of the total paid and issued shares of 20,000,000 shares. Hence the capital was decreased by SR 126,582,100 to become SR 73,417,900. The company completed all the legal formalities related to the capital reduction during 2013.

Itqan Capital (A Closed Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2013

13 SHARE CAPITAL (continued)

The issued and paid up capital after the capital decrease at 31 December 2013 and before the capital decrease on 31 December 2012 is as follows:

<i>Shareholder</i>	<i>Nationality</i>	<i>2013</i>		<i>2012</i>	
		<i>Percentage of ownership %</i>	<i>Total SR</i>	<i>Percentage of ownership %</i>	<i>Total SR</i>
Al Barakah Islamic Bank – Bahrain	Kingdom of Al Bahrain	60%	44,050,740	60%	120,000,000
Aseer For Trading, Tourism, Industrial, Agricultural, Real Estate & Contracting Co.	Kingdom of Saudi Arabia	20%	14,683,580	20%	40,000,000
Sheikh Saleh Abdullah Kamel	Kingdom of Saudi Arabia	15.94%	11,686,864	15.94%	31,940,000
Al Baraka Investment & Development Co.	Kingdom of Saudi Arabia	1%	734,179	1%	2,000,000
Dallah Albaraka Holding Co. (Saudi Arabia)	Kingdom of Saudi Arabia	1%	734,179	1%	2,000,000
Mr. Mohey Aldeen Saleh Abdullah Kamel	Kingdom of Saudi Arabia	1%	734,179	1%	2,000,000
Mr. Abdullah Mohammed Abdo Yamani	Kingdom of Saudi Arabia	1%	734,179	1%	2,000,000
Mr. Abdul Aziz M. Yamani – Chairman	Kingdom of Saudi Arabia	0.01	10,000	0.01	10,000
Mr. Mohamed Abdulla Nooruddin – Director	Kingdom of Saudi Arabia	0.01	10,000	0.01	10,000
Mr. Abdulelah A. Sabbahi – Director	Kingdom of Saudi Arabia	0.01	10,000	0.01	10,000
Mr. Abdullah I. Al-Howaish – Director	Kingdom of Saudi Arabia	0.01	10,000	0.01	10,000
Mr. Adil S. Dahlawi – Managing Director and Chief Executive Officer	Kingdom of Saudi Arabia	0.01	10,000	0.01	10,000
Mr. Adnan A. Yousif – Director	Kingdom of Saudi Arabia	0.01	10,000	0.01	10,000
			73,417,900		
					200,000,000

14 STATUTORY RESERVE

In accordance with the Saudi Arabian regulations for companies and the Company's memorandum of association, the Company must set aside 10% of its net income in each year to a statutory reserve. The general assembly may discontinue such transfer when it has built up a reserve equal half of the capital. As the Company has incurred a loss for the year, no transfer was made to the statutory reserve. The reserve is not available for distribution.

15 SEGMENT INFORMATION

The Company is using the business segment for its internal reporting. The table below reflects analysis of activities income/expense and total loss for individual activities for the year ended 31 December.

2013					
<i>Description</i>	<i>Principal investment SR</i>	<i>Investment banking SR</i>	<i>Business development SR</i>	<i>Investment funds/portfolios management SR</i>	<i>Total SR</i>
Activities income, net	4,895,356	-	320,861	833,042	6,049,259
Operating costs, net	(565,411)	(489,377)	(1,633,816)	(3,811,709)	(6,500,313)
Gross profit/(loss)	4,329,945	(489,377)	(1,312,955)	(2,978,667)	(451,054)
2012					
<i>Description</i>	<i>Principal investment SR</i>	<i>Investment banking SR</i>	<i>Business development SR</i>	<i>Investment funds/portfolios management SR</i>	<i>Total SR</i>
Activities income, net	1,572,275	-	163,750	1,228,142	2,964,167
Operating costs	(269,759)	(776,760)	(2,661,432)	(3,477,342)	(7,185,293)
Gross profit/(loss)	1,302,516	(776,760)	(2,497,682)	(2,249,200)	(4,221,126)

Due to the nature of the Company's business, no assets or liabilities are allocated for individual business activities.

16 GENERAL AND ADMINISTRATIVE EXPENSES

	2013 SR	2012 SR
Salaries and wages	6,952,514	6,974,059
Subscription fee	119,586	269,210
Maintenance	293,210	223,732
Consultancy and professional fees	322,876	494,959
Publicity, advertising and public relations	499,989	387,408
Depreciation (note 9)	851,896	625,519
Rentals	557,570	464,609
Other	702,030	699,801
	10,299,671	10,139,297

17 BASIC LOSS PER SHARE

The basic loss per share from loss from main operations for the year ended 31 December 2013, has been calculated by dividing the loss from main operations for the year by the average number of outstanding shares of 17,052,198 (2012: number of outstanding shares 17,052,198).

The basic loss per share from the net loss for the year ended 31 December 2013 has been calculated by dividing the net loss for the year by the average number of outstanding shares of 17,052,198 (2012: number of outstanding shares 17,052,198 shares).

The weighted average number of shares outstanding during the period has been recalculated for the comparative figures due to the decrease in the Company's capital during 2013.

18 INVESTMENTS MANAGED FOR OTHERS

The Company establishes and manages investment funds and portfolios and receives a certain percentage that represents the management fees for such services. As at 31 December 2013, the investments managed for others totalled SR 164,973,804 (2012: SR 139,133,424).

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

19 RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the year and the related balances at the year-end:

<i>Amounts due from related parties</i>	<i>Nature of transaction</i>	<i>Amount of transaction</i>		<i>Balance</i>	
		<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
Al Baraka for Investment and Development	Rent - Expense	46,832	46,833	-	-
Dallah for Real Estate Development and Tourism	Rent - Expense	12,914	11,068	-	-
Investment Funds	Various	2,675	14,000	2,675	14,000
	Management fees	827,040	883,299	658,066	1,305,926
	Custodian fees	93,663	181,054	71,206	203,293
	Subscription fees	233,200	327,500	-	-
Board of Directors expenses	Expenses	21,857	18,016	-	-
Others	Various	-	1,000	1,000	1,000
				<u>732,947</u>	<u>1,524,219</u>
<i>Amounts due to related parties</i>					
Al Baraka Islamic Bank - Bahrain	Subordinated loan	100,000,000	-	100,000,000	-
				<u>100,000,000</u>	<u>-</u>

Prices and terms of payment with related parties are approved by the management.

Amounts due from and to related parties are shown in note 5 & 12 respectively.

20 RISK MANAGEMENT**Interest rate risk**

The Company is not subject to interest rate risk as it trades in Shari'a compliant products only.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company seeks to limit its credit risk by monitoring the outstanding receivables and setting credit limits for transactions with other parties and continuously evaluate their credit worthiness, in addition to monitoring the credit limits.

The assets subject to credit risks are cash with banks, investments, other receivables. The Company keeps the cash funds and investments with banks and parties with good credit rating.

Liquidity risk

The Company manages its liquidity risk by maintaining enough balances of cash, cash equivalent and listed securities.

The table below summarizes the maturities of the Company's financial liabilities at 31 December, based on contractual payment dates.

	<i>Less than 3 months SR</i>	<i>3 to 12 months SR</i>	<i>Total SR</i>
Year ended 31 December 2013			
Accounts payables and accruals	-	4,291,738	4,291,738
Total	-	4,291,738	4,291,738
	<i>Less than 3 months SR</i>	<i>3 to 12 months SR</i>	<i>Total SR</i>
Year ended 31 December 2012			
Accounts payables and accruals	-	4,238,146	4,238,146
Total	-	4,238,146	4,238,146

Currency risk

The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyal and US Dollar during the year. As the exchange rate of Saudi Riyal is pegged to the US Dollar, the balances and transactions in US Dollar does not represent material currency risk on the financial statements.

Market risk

A proper framework has been set for the management of the market risk of all assets including the assets that have no current market prices and / or exposed to fluctuations in prices.