

TAMWEEL ALOULA COMPANY
(CLOSED JOINT STOCK COMPANY)
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE PERIOD FROM 2 JULY 2015 TO 30 SEPTEMBER 2016

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(Expressed in Saudi Riyals)

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INDEPENDENT AUDITORS' REPORT

The Shareholders
Tamweel AlOula Company
(Closed Joint Stock Company)
Dammam, Saudi Arabia

We have audited the accompanying financial statements of **Tamweel AlOula Company** (the "Company") which comprise the balance sheet as at 30 September 2016 and the related statements of income, comprehensive income, cash flows and changes in shareholders' equity for the period from 2 July 2015 to 30 September 2016 and the attached notes 1 through 22 which form an integral part of the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the Regulations for Companies and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Unqualified opinion:

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

- 1) present fairly, in all material respects, the financial position of **Tamweel AlOula Company** as at 30 September 2016, and its results of operations and its cash flows for the period from 2 July 2015 to 30 September 2016 in accordance with International Financial Reporting Standards; and
- 2) comply with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of the financial statements.

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

Ebrahim Oboud Baeshen
License no. 382

Al Khobar: 31 March 2017
Corresponding to: 03 Rajab, 1438H



TAMWEEL ALOULA COMPANY
(CLOSED JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2016
(Expressed in Saudi Riyals)

	Note	30 September 2016
ASSETS		
Non-current assets		
Property and equipment	3	2,309,942
Intangible assets	4	2,964,234
Net investment in finance leases	5	193,088,445
Total non-current Assets		198,362,621
Current assets		
Current maturity of net investment in finance leases	5	120,929,741
Other receivables	6	3,659,166
Cash and cash equivalents	7	826,050
Total current assets		125,414,957
TOTAL ASSETS		323,777,578
SHAREHOLDERS' EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
Share capital	8	250,000,000
Statutory reserve	9	1,830,561
Retained Earnings		16,475,048
TOTAL SHAREHOLDERS' EQUITY		268,305,609
LIABILITIES		
Non-current liabilities		
Employees' end of service benefits	10	1,744,004
Total non-current liabilities		1,744,004
Current liabilities		
Loans from a shareholder	13,21	27,930,675
Due to shareholders	21	14,242,250
Accounts payable	11	6,430,596
Accrued expenses and other liabilities	12	4,262,040
Zakat provision	16	862,404
Total current liabilities		53,727,965
TOTAL LIABILITIES		55,471,969
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		323,777,578

Chairman

Chief Executive Officer

Chief Financial Officer

The accompanying notes from 1 to 22 form an integral part of these financial statements.

TAMWEEL ALOULA COMPANY
(CLOSED JOINT STOCK COMPANY)
STATEMENT OF INCOME
FOR THE PERIOD FROM 2 JULY 2015 TO 30 SEPTEMBER 2016
(Expressed in Saudi Riyals)

	<u>Note</u>	<u>For the period from 2 July 2015 to 30 September 2016</u>
INCOME		
Income from operations		
Finance lease		67,725,111
Income from other activities		
Other income		27,525
Total income		<u>67,752,636</u>
EXPENSES		
Special commission expenses and bank charges	14	(5,342,383)
Insurance expenses for finance leasing activities		(15,456,519)
Allowance for doubtful debts		(4,230,629)
Salaries and employee related expenses		(14,827,367)
Rent and premises related expenses		(980,416)
Depreciation and amortization		(635,515)
Other general and administrative expenses	15	(7,111,794)
Total expenses		<u>(48,584,623)</u>
PROFIT FOR THE PERIOD BEFORE ZAKAT		19,168,013
Zakat	16	(862,404)
PROFIT FOR THE PERIOD		<u>18,305,609</u>
Earnings per share - basic and diluted (Saudi Riyals)	17	<u>0.73</u>

The accompanying notes from 1 to 22 form an integral part of these financial statements.

**TAMWEEL ALOULA COMPANY
(CLOSED JOINT STOCK COMPANY)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 2 JULY 2015 TO 30 SEPTEMBER 2016
(Expressed in Saudi Riyals)**

	For the period from 2 July 2015 to 30 September 2016
Profit for the period	18,305,609
Other comprehensive income	-
Total comprehensive income for the period	<u>18,305,609</u>

The accompanying notes from 1 to 22 form an integral part of these financial statements.

TAMWEEL ALOULA COMPANY
(CLOSED JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 2 JULY 2015 TO 30 SEPTEMBER 2016
(Expressed in Saudi Riyals)

	Note	For the period from 2 July 2015 to 30 September 2016
OPERATING ACTIVITIES		
Profit for the period		18,305,609
Adjustments:		
Depreciation and amortization		635,515
Special commission expenses and bank charges	14	5,342,383
Employees' end of service benefits	10	818,787
Zakat charged	16	862,404
Loss on disposal of property and equipment		460,751
Pre – organization expenses and capital work in progress charged to the period		2,456,576
Allowance for doubtful debts	5.1	4,230,629
		<u>33,112,654</u>
Changes in operating assets and liabilities		
Accounts receivable		69,360,117
Other receivables		(590,157)
Accounts payable		(29,853,637)
Accrued expenses and other liabilities		2,814,537
Due to related parties		14,242,250
Employees' end of service benefits paid	10	(179,893)
Special commissions and bank charges paid		(10,457,038)
Net cash from operating activities		<u>78,448,833</u>
INVESTING ACTIVITIES		
Capital expenditure incurred - property and equipment and intangible assets		(1,031,392)
Proceeds from disposal of property and equipment		770,391
Net cash used in investing activities		<u>(261,001)</u>
FINANCING ACTIVITIES		
Repayments of loans from shareholders		(207,194,928)
Due to shareholders		(137,033,269)
Capital introduced		250,000,000
Net cash used in financing activities		<u>(94,228,197)</u>
Net change in cash and cash equivalents		(16,040,365)
Cash and cash equivalents (transferred)	1	16,866,415
Cash and cash equivalent at the end of the period	7	<u>826,050</u>
Non-cash transactions:		
Net investment in finance leases transferred to a shareholder	21	66,885,421
CWIP transferred to intangible assets		<u>3,112,500</u>

The accompanying notes from 1 to 22 form an integral part of these financial statements.

TAMWEEL ALOULA COMPANY
(CLOSED JOINT STOCK COMPANY)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE PERIOD FROM 2 JULY 2015 TO 30 SEPTEMBER 2016
(Expressed in Saudi Riyals)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total shareholders' equity</u>
Share capital introduced	250,000,000	-	-	250,000,000
Profit for the period	-	-	18,305,609	18,305,609
Transfer to statutory reserve	-	1,830,561	(1,830,561)	-
30 September 2016	<u>250,000,000</u>	<u>1,830,561</u>	<u>16,475,048</u>	<u>268,305,609</u>

The accompanying notes from 1 to 22 form an integral part of these financial statements.

TAMWEEL ALOULA COMPANY
(CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 2 JULY 2015 TO 30 SEPTEMBER 2016
(Expressed in Saudi Riyals)

1. CORPORATE INFORMATION

Tamweel AlOula Company (the "Company") is a Saudi closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company registered in Dammam under commercial registration number 2050055043 dated on 15 Ramadan, 1436 corresponding to 2 July 2015 and operating under company license number 39/A Sh/201512 dated 21/02/1437H corresponding to 3 December 2015 issued by Saudi Arabian Monetary Agency ("SAMA").

The principal activities of the Company are capital lease, financing lease and operating lease.

The Company's registered office is located in Dammam at the following address:

Tamweel AlOula Company

Al Khobar Dammam Highway
Al Kifah Tower
P.O. Box 7355, Dammam 31462
Kingdom of Saudi Arabia

In accordance with the By-Laws of the Company, the Company acquired the operations, related assets and liabilities of Tamweel for trading and installments, a branch of Al Kifah Trading Company (a shareholder), as at 2 July 2015. The details of net assets acquired are as follows:

Cash and cash equivalent	16,866,415
Net investment in finance leases	463,387,079
Allowance for lease losses	(8,892,725)
Advances, prepayments and other receivables	3,069,010
Property and equipment, net	3,045,610
Intangible assets, net	45,189
Pre – organization expenses	2,362,716
Capital work in progress	3,112,500
Total assets	482,995,794
Long term loans from related parties	(303,829,810)
Accounts payable	(36,284,233)
Accrued expenses and other liabilities	(4,743,372)
Employees' end of service benefits	(1,105,110)
Total liabilities	(345,962,525)
Net assets transferred	137,033,269

Cash consideration paid by the Company is equal to the book value of net assets transferred which is approximate to the fair market value.

Furthermore, in October 2015, the Company has disposed certain financial assets (investment in finance lease) to Al Kifah Trading Company (a shareholder), amounting to SR 66.8 million. Lease receivables transferred and related unearned lease finance income amounted to SR 71.5 million and SR 4.7 million, respectively. (Refer to note 5.6)

Management has notified SAMA about transactions in order to obtain a no-objection letter as required by Implementing Regulations of the Finance Companies Control law.

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATIONS

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as required by the Implementing Regulations of the Finance Companies Control Law.

2.2 Basis of preparation

These financial statements are prepared on a historical cost convention using the accrual basis of accounting and the going concern concept.

The new Regulations for Companies issued through Royal Decree M/3 on 11 November 2015 (hereinafter referred as "the Law") has come into force on 02 May 2016. The Company has to amend its By-Laws for any changes to align the Articles of its By-Laws to the provisions of the Law. Consequently, the Company shall present the amended By-Laws to the shareholders in their Extraordinary General Assembly meeting for ratification. Full compliance with the Law is expected not later than 24/07/1438H (corresponding to 21 April 2017).

2.3 New standards, amendments to standards and interpretations - not yet effective

The accounting policies used in the preparation of these financial statements are consistently applied, except for the adoption of certain amendments and revisions to existing standards as mentioned below, which are effective for periods beginning on or after October 1, 2016 but had no significant financial impact on the financial statements of the Company:

a) New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company

The following revised IFRSs have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contribution;
- Amendments to IFRS 2 Share based payments – amendments relating to meaning of "vesting conditions";
- Amendments to IFRS 3 Business Combinations – amendments relating to classification and measurement of contingent considerations and scope exclusion for the formation of joint arrangements;
- Amendments to IFRS 8 Operating Segments – amendments relating to disclosures on the aggregation of operating segments;
- Amendments to IFRS 13 Fair Value Measurement – amendments relating to measurement of short-term receivables and payables and scope of portfolio exception;
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – amendments relating to restatement of accumulated depreciation (amortisation) on revaluation;
- Amendments to IAS 24 Related Party Disclosures – amendments relating to definition of a related party; and
- Amendments to IAS 40 Investment Property – amendments relating to inter-relationships of IFRS 3 and IAS 40.

b) Standards, interpretations and amendments to published standards that will be effective for the periods commencing after January 1, 2016 and have not been early adopted by the Company

The Company has not early adopted the following new and revised standards that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 12 Income Taxes relating to recognition of Deferred Tax Assets for unrealised losses.	1 January 2017
Amendments to IAS 7 Statement of Cash Flows to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
Finalised version of IFRS 9 Financial Instruments (IFRS 9 Financial Instruments (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and de-recognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.	1 January 2018
<p>A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.</p> <p>A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.</p>	
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.	1 January 2018
IFRS 16 Leases: IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019

The Company is assessing the potential impact on its consolidated financial statements resulting from the application of above mentioned IFRSs.

2.4 Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed

to be reasonable under the circumstances, the result of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Company's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

- a) Determining the residual values and useful lives of property and equipment (Note 2.5.1);
- b) Allowance for lease losses (Note 2.5.4);

2.5 The principal accounting policies adopted in the preparation of these financial statements are set out below:

2.5.1 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property and equipment is capitalized and the asset so replaced is retired from use. All other repairs and maintenance expenditure are charged to the statement of income during the period in which they are incurred.

Depreciation is charged using the straight line method over its estimated useful life as mentioned below, after taking into account residual value.

Leasehold improvements	5
Office furniture and fixtures	4
Tools and equipment	5
Information technology equipment	4-5

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property and equipment, if any, are taken to the statement of income in the period in which they arise.

The assets residual values, useful lives and methods are reviewed and adjusted, if appropriate, at each statement of financial position date.

2.5.2 Intangible assets

Intangible assets, include Enterprise Resources Planning ("ERP") software acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in statement of income.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2.5.3 Net investment in finance leases

Leases in which the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. Finance leases are recorded at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Gross investment in finance leases include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases. The Company takes down payments on leases with the right to set off against the residual value of leased assets and for presentation purposes, these down payments along with prepaid lease rentals are deducted from gross investment in finance leases.

2.5.4 Allowances and provisions

Allowances for lease losses

The Company reviews its lease receivables on a monthly basis to assess whether specific allowances for impairment should be recorded in the statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such allowances.

In addition to specific allowances against individually significant lease receivables, the Company also makes a collective impairment allowance against lease receivables which although not specifically identified as requiring a specific allowance have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal grade of the exposure since it was granted. The amount of the allowance is based on the historical loss pattern for lease receivables within each grade and is adjusted to reflect current economic changes. Lease receivables are charged off, when in the opinion of management, the likelihood of any future collection is believed to be minimal.

Other provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and 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. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimates.

2.5.5 Zakat

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Income Tax (the "GAZT") in the Kingdom of Saudi Arabia and on accrual basis. Zakat is charged to the statement of income.

2.5.6 Expenses

Expenses are recognized in the statement of income and other comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over the accounting period. Expenses are presented using the nature of expense method.

2.5.6.1 Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Management determines the classification of the financial asset at the time of initial recognition.

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

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial investments

The Company has not designated any financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial investments and derivatives designated as hedges instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date which are classified as non-current assets. Loans and receivables comprise of loans, advances, deposits, prepayments, other receivables and cash and cash equivalents. After initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment. Restructured/ rescheduled receivables are recorded at revised terms and conditions as approved by the management. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue.

2.5.6.2 Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

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

The Company's financial liabilities include Accounts payable, other liabilities, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as financial liabilities at fair value through profit or loss or "other financial liabilities".

The Company has not designated any financial liability as fair value through profit or loss.

Other financial liabilities

Other financial liabilities (including loans and borrowings and trade and other payables) are subsequently measured at amortized cost using the effective interest rate method.

Transaction costs relating to long term loans and borrowings are being amortized over the period of agreement using the effective interest rate method.

2.5.7 Fair value measurement

The Company measures financial instruments, at fair value at each statement of financial position 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 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 by using the asset in its highest and best use or by selling it to another market participant that would use 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

2.5.8 Regular way Contracts

Regular way purchases or sales of financial assets are those, the contract which requires delivery of assets within the timeframe generally established by regulation or convention in the market. All "regular way" purchases and sales of financial assets are recognized on the settlement date, i.e. the date on which the asset is delivered to or by the Company.

2.5.9 Offsetting

Financial assets and liabilities are offset and are reported net in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously. Similarly, income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

2.5.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks including bank overdrafts and investments with original maturity of less than three months from the contract date.

2.5.11 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. These financial statements are presented in Saudi Arabian Riyals which is the Company's functional and presentation currency. All financial information presented in Saudi Arabian Riyals has been rounded to the nearest Riyal, unless otherwise mentioned.

2.5.12 Foreign currency translation

Transactions in foreign currencies are translated at the rates of exchange prevailing at the dates of the respective transactions. At statement of financial position date, monetary assets and liabilities in foreign currencies are translated to Saudi Arabian Riyals at the prevailing exchange rates. Gains and losses resulting from changes in exchange rates are recognized as income or expense. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction are not retranslated at statement of financial position date.

2.5.13 Proposed dividend and transfer between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the statement of financial position date are considered as non-adjusting events and are recorded in the financial statements in the year in which they are approved and transfers are made.

2.5.14 Revenue recognition-Finance leases

Finance lease income is recognized over the term of the lease using the effective yield method. Service fees charged in respect of processing and other services are recognized as income as the services are rendered.

Other income recognized when incurred.

2.5.15 Employees' end of service benefits

The Company provides end-of-service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

2.5.16 Impairment and uncollectability of assets

Financial assets:

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. Objective evidence whether the financial assets are impaired includes:

default or delinquency by a lessee' restricting of an amount due to the Company on terms that the Company would not consider otherwise; indications that the party from whom an amount is due to the Company will enter bankruptcy; adverse changes in payment status of the lessee; or observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

If such evidence exists, an impairment loss is recognized in the statement of income. 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 recognized in the statement of income;
- (b) For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Non-financial assets:

An assessment is made at each statement of financial position date to determine whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the assets recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating unit (CGU), fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

2.5.17 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of special commission expense and other costs that the Company incurs in connection with the borrowing of funds.

2.5.18 Statutory reserve

As required by Saudi Arabian Regulations for Companies and the Company's By-laws, 10% of the income for the period/year (after zakat) should be transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve equals 50% of the capital. The new Saudi Arabian Regulations for Companies that came into effect on 25 Rajab 1437H (corresponding to May 2, 2016) requires companies to set aside 10% of its net income each year as statutory reserve until such reserve reaches 30% of the share capital. This reserve is not available for distribution.

3. PROPERTY AND EQUIPMENT

	<u>Leasehold improvements</u>	<u>Office furniture and fixtures</u>	<u>Tools and equipment</u>	<u>Information technology equipment</u>	<u>Total</u>
	SR	SR	SR	SR	SR
Cost :					
Transferred (note 1)	2,685,559	1,105,676	5,280	229,193	4,025,708
Additions	-	243,141	-	694,392	937,533
Disposals	<u>(1,127,205)</u>	<u>(711,744)</u>	<u>(4,820)</u>	<u>(68,476)</u>	<u>(1,912,245)</u>
30 September 2016	<u>1,558,354</u>	<u>637,073</u>	<u>460</u>	<u>855,109</u>	<u>3,050,996</u>
Depreciation:					
Transferred (note 1)	425,896	455,873	2,964	95,365	980,098
Charge for the period	135,795	156,753	1,320	148,192	442,060
Disposals	<u>(234,513)</u>	<u>(383,318)</u>	<u>(4,023)</u>	<u>(59,250)</u>	<u>(681,104)</u>
30 September 2016	<u>327,178</u>	<u>229,308</u>	<u>261</u>	<u>184,307</u>	<u>741,054</u>
Net book value:					
30 September 2016	<u>1,231,176</u>	<u>407,765</u>	<u>199</u>	<u>670,802</u>	<u>2,309,942</u>

4. INTANGIBLE ASSETS:

	<u>30 September 2016</u>
Cost:	
Transferred (note 1)	47,567
Additions	3,112,500
30 September 2016	<u>3,160,067</u>
Amortization:	
Transferred (note 1)	2,378
Charged during the period	193,455
30 September 2016	<u>195,833</u>
Net book value:	
30 September 2016	<u>2,964,234</u>

Intangible balance represents the cost of Enterprise Resources Planning ("ERP") software.

5. NET INVESTMENT IN FINANCE LEASES

	30 September 2016
Lease receivables	344,866,816
Residual value	71,510,464
Gross investment in finance leases	416,377,280
Unearned lease finance income	(89,235,740)
Net investment in finance leases	327,141,540
Provision for lease losses	(13,123,354)
	314,018,186
Less: current portion	120,929,741
	193,088,445

5.1 The movement in the allowance for lease losses was as follows:

	30 September 2016
Balance at the beginning of the period (transferred note 1)	8,892,725
Allowance for the period:	4,230,629
	13,123,354

5.2 The age analysis on the net investment in finance leases:

	30 September 2016
Neither past due nor impaired	271,598,818
Past due 1-30 days	4,210,843
Past due 31-90 days	3,869,735
Past due 91-180 days	24,584,167
Past due 181-365 days	16,355,792
Over 1 year	6,522,185
Past due but not impaired	55,542,722
Net investment in finance leases before provision for lease losses	327,141,540
Less: Allowance for lease losses	(13,123,354)
	314,018,186

The age analysis on the leases - past due but not impaired:

	30 September 2016
From 1 day to 30 days	4,210,843
From 31 days to 90 days	3,869,735
Total	8,080,578

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5.3 The maturity of the investment in finance leases is as follows:

	<u>Gross investment in finance leases</u>	<u>Unearned lease finance income</u>	<u>Net investment in finance leases</u>
Not later than one year	188,798,289	54,745,194	134,053,095
Later than one year but not later than five years	227,578,991	34,490,546	193,088,445
	<u>416,377,280</u>	<u>89,235,740</u>	<u>327,141,540</u>

5.4 The Company's implicit rate of return on leases is in market rate ranges. These are secured against leased assets and down payments which are generally up to 20% of the cost of leased asset, in case of finance leases. The Company's major activities for finance leases are for cars, heavy equipment and home appliances.

5.5 Lease rentals received during the period aggregate to SR 227 million.

5.6 The Company has disposed certain financial assets (investment in finance leases) as at 1st October 2015 to Al Kifah Trading Company (a shareholder), amounting to SR 66.8 million. Lease receivables transferred and related unearned lease finance income amounted to SR 71.5 million and SR 4.7 million, respectively.

The management has notified SAMA about transactions in order to obtain a no-objection letter as required by Implementing Regulations of the Finance Companies Control law.

5.7 The contractual rights and the titles of certain assets subject to the finance leases arrangements are under the name of Al Kifah Trading Company (a shareholder) amounting to SR 254 million of investment in finance leases as at 30 September 2016. The shareholder has waived rights over these assets and confirmed that the risks and rewards pertaining to the assets have been transferred to the Company.

6. OTHER RECEIVABLES

	<u>30 September 2016</u>
Insurance claims	3,141,585
Staff loans and custody	514,377
Others	3,204
	<u>3,659,166</u>

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	<u>30 September 2016</u>
Cash in hand	219,980
Cash at banks – current accounts	606,070
	<u>826,050</u>

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8. SHARE CAPITAL

The pattern of shareholding as of 30 September 2016 is as follows:

	Percentage of ownership	Number of Shares	SR
Al Kifah Holding Company	80	20,000,000	200,000,000
International Developers Company	5	1,250,000	12,500,000
Al Kifah for Building Materials Company	5	1,250,000	12,500,000
Al Kifah Trading Company	5	1,250,000	12,500,000
Al Kifah for Constructions Company	5	1,250,000	12,500,000
	100	25,000,000	250,000,000

9. STATUTORY RESERVE

In accordance with Regulations for Companies in the Kingdom of Saudi Arabia, the Company has established a statutory reserve by appropriation of 10% of net income until the reserve is equal to 50% of the share capital. The new Saudi Arabian Regulations for Companies that came into effect on 25 Rajab 1437H (corresponding to 2 May 2016) requires companies to set aside 10% of its net income each year as statutory reserve until such reserve reaches 30% of the share capital.

10. EMPLOYEES END OF SERVICE BENEFITS

	30 September 2016
Balance transferred (note 1)	1,105,110
Charged during the period	818,787
Payments made during the period	(179,893)
30 September 2016	1,744,004

11. ACCOUNTS PAYABLE

These represent non-interest bearing payables against purchase of assets leased by the Company. The average credit period on purchase of assets from certain suppliers is one month.

12. ACCRUED EXPENSES AND OTHER LIABILITIES

	30 September 2016
Advances from customers	790,654
Accrued expenses	3,228,940
Unallocated cash collection	242,446
	4,262,040

13. LOANS FROM A SHAREHOLDER

As at 30 September 2016, the Shareholders had long term financing facilities (the "Facilities") from local banks to finance lease receivables. The Facilities carry an interest rate equivalent to SAIBOR plus credit margin and transaction execution fees. As per the Facilities, the loans are repayable as per the projected cash flows of the accepted contracts of the leases portfolio subject for financing when the Facilities are signed with maximum tenor of 4 years. The Company presented loans as Loans from a shareholder. The Company paid an amount of SR 207.2 million, during the period, to the shareholders who in turn paid such amounts to the bank. However, the balance of loans from shareholders has been fully paid subsequently to the year end.

The Facilities are guaranteed with corporate and personal guarantees from shareholders and ultimate shareholders and assignments for specific contracts collections.

14. SPECIAL COMMISSION EXPENSES AND BANK CHARGES

	For the period from 2 July 2015 to 30 September 2016
Special commission expense on long term loans from a related party	4,804,347
Bank charges	538,036
	<u>5,342,383</u>

15. GENERAL AND ADMINISTRATIVE EXPENSES

	For the period from 2 July 2015 to 30 September 2016
Professional and consulting fees*	3,117,269
Governmental licenses and fees	1,591,527
Utilities expenses	685,866
Advertising expenses	531,958
Services charges	303,190
Office supplies	254,500
Cleaning expenses	239,708
Repair and maintenance	100,997
Other allowances	92,149
Visa, permits and licenses	64,242
Business entertainment	51,200
Travel and transportation expenses	47,092
Other expenses	32,096
	<u>7,111,794</u>

* This includes pre-organization expenses amounting to SR 2.4 million (note 1).

16. ZAKAT

The principal elements of the Zakat base are as follows:

	30 September 2016
Share Capital	250,000,000
Current assets	125,414,957
Non-current assets	198,362,621
Current liabilities	53,727,965
Non-current liabilities	1,744,004
Profit for the period before Zakat	<u>19,168,013</u>

The movement in Zakat provision is as follows:

Zakat	For the period from 2 July 2015 to 30 September 2016
Provision for the period 30 September	<u>862,404</u> <u>862,404</u>

17. BASIC AND DILUTED EARNINGS PER SHARE

The basic and diluted earnings per share is calculated by dividing the profit for the period attributable to the shareholders by weighted average number of stocks at the end of the period.

18. OPERATING LEASE

The Company has an operating lease arrangements for Office spaces with a shareholder. Accordingly, the Company has an annual operating lease commitment amounting to SR 850,000.

19. SEGMENT REPORTING

A segment is a distinguishable component that is engaged in providing leases (a business segment), which is subject to risks and rewards that are different from those of other segments.

The Company essentially monitors its business as a single business segment and accordingly it is management opinion that segment reporting would not be relevant. The Company only operates in the Kingdom of Saudi Arabia.

20. RISK MANAGEMENT

Risk is inherent in the Company's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability. The Company's activities are exposed to a variety of financial risks which mainly include market risk, credit risk and liquidity risk.

20.1 Risk management structure

Board of Directors

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

Audit Committee

The audit committee is appointed by the Board of Directors. The audit committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof and the soundness of the internal controls of the Company.

Internal Audit

All key operational, financial and risk management processes are audited by the Internal Audit. Internal audit examines the adequacy of the relevant policies and procedures, the Company's compliance with the internal policies and regulatory guidelines. Internal audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

The risks faced by the Company and the way these risks are mitigated by management are summarized below.

20.2 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Market risk comprises of four types of risk: currency risk, other price risk, special commission rate risk and credit risk.

20.2.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial assets will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried in Saudi Riyal. The Company incurs currency risk on borrowing in foreign currency that is entered in a currency other than Saudi Riyal. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations as the majority of the monetary assets and liabilities are in Saudi Riyals or currencies which are pegged to the Saudi Riyal and consequently the Company does not hedge its foreign currency exposure.

20.2.2 Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from special commission rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Company does not have any financial instruments which are subject to other price risk.

20.2.3 Special commission rate risk

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in market special commission rates. The Company is subject to variations in the fair value of its financial instruments and the net special commission income arising from changes to special commission rate risk on its borrowings, which are generally priced on the floating SIBOR.

20.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has established procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral such

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as down payments and personal guarantees. Individual lease contracts generally are for terms not exceeding forty-eight months.

Concentrations of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company manages its credit risk exposure through diversification of leasing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses.

The credit risks on gross amounts due in relation to the investment in finance leases is mitigated by the retention of title on leased assets and down payments.

The Company follows a credit classification mechanism, primarily driven by days delinquency as a tool to manage the quality of credit risk of the lease portfolio. Lease receivables which are overdue for more than 3 months and where future cash flows are estimated to differ, are graded in to four sub-categories according to Company's internal rating system i.e. Overdue/Watch, Substandard, Doubtful and Loss.

	30 September 2016
Net investment in finance leases	<u>314,018,186</u>
Other receivables	3,659,166
Cash and cash equivalents at banks – current accounts	<u>606,070</u>
	<u>318,283,422</u>

Out of the total assets of SR 323 million the assets which were subject to credit risk amounted to SR 318 million.

The age analysis on the net investment in finance leases:

	30 September 2016
Net investment in finance leases:	
Neither past nor due	271,598,818
Past due 1-30 days	4,210,843
Past due 31-90 days	3,869,735
Past due 91-180 days	24,584,167
Past due 181-365 days	16,355,792
Over 1 year	<u>6,522,185</u>
	327,141,540
Less: Allowance for lease losses	(13,123,354)
Net of allowance	<u>314,018,186</u>
Coverage ratio	<u>4.2%</u>

The portfolio that is neither past due nor impaired has satisfactory history of repayment, where applicable.

The Company has an allowance of SR 13.1 million as general allowance and against these past dues. In addition, finance lease receivables are secured against leased assets.

The credit quality of Company's bank balances are assessed with reference to external credit ratings which all are above investment grade rating.

20.3.1 Geographical segment analysis

The Company's operations are restricted to Kingdom of Saudi Arabia only.

20.3.2 Collateral held as security and other credit enhancements

The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risk associated with the net investment in finance lease, is mitigated because the net investment in finance lease is secured against leased assets.

20.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company will be required to pay its liabilities earlier than expected or will face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The contractual maturities of liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Company's availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained. The table below summarizes the maturity profile of the Company's liabilities based on contractual undiscounted cash flows:

	Within 3 months SR	3 to 12 Months SR	1 to 5 years SR	No fixed maturity SR	Total SR
30 September 2016					
Liabilities					
Accounts payable	6,430,596	-	-	-	6,430,596
Accrued expenses and other liabilities	4,262,040	-	-	-	4,262,040
Loans from a shareholder	27,196,028	734,647	-	-	27,930,675
Due to related parties	9,837,000	4,405,250	-	-	14,242,250
Employees' end of service benefits	-	-	-	1,744,004	1,744,004
	<u>47,725,664</u>	<u>5,139,897</u>	<u>-</u>	<u>1,744,004</u>	<u>54,609,565</u>

20.5 Fair values of financial assets and financial liabilities

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

All financial assets and financial liabilities are measured at amortized cost. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values.

20.6 Capital risk management

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong capital base to support the sustained development of its business. The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic

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conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to its shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the period ended 30 September 2016.

21. RELATED PARTY TRANSACTIONS

In the ordinary course of its business, the Company transacts business with its related parties, which include its parent Company (Al Kifah Holding Company), affiliated Companies and other entities in which the principal shareholder has share of interest. Such transactions are dealt with on agreed terms and the terms and conditions of such transactions are approved by the Company's management. Following are the related parties of the company:

<u>Name of entity</u>	<u>Relationship</u>
Al Kifah Group of Companies	Shareholders/affiliates

During the period the Company had the following significant transaction with its related parties.

<u>Related Party</u>	<u>Nature of transactions</u>	<u>30 September 2016</u>
Al Kifah Holding Company	Repayment of loans	207,194,928
	Operating lease expenses	980,416
Al Kifah for Building Materials Company	Heavy machinery and equipment sales financed by the Company	14,158,500
Al Kifah Trading Company	Net assets transferred from shareholders	137,033,269
	Assets purchased for the purpose of leases	78,110,770
	Net investments in finance lease transferred to shareholder	66,885,421

The above mentioned transactions with related parties resulted in the following balances as at 30 September:

	<u>30 September 2016</u>
<u>Loans from shareholders:</u>	
Al Kifah holding Company	27,930,675
<u>Due to shareholders:</u>	
Al Kifah for Building Materials Company	14,158,500
Al Kifah Trading Company	83,750
	<u>14,242,250</u>

22. BOARD OF DIRECTORS' APPROVAL

These financial statements were approved on 30 March 2017 Corresponding to 02 Rajab, 1438H.