

TAMWEEL ALOULA COMPANY
(CLOSED JOINT STOCK COMPANY)

INTERIM CONDENSED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR REVIEW REPORT

FOR THE THREE MONTHS ENDED 31 MARCH 2016
AND THE PERIOD FROM 2 JULY 2015 TO 31 MARCH 2016
(UNAUDITED)

TAMWEEL ALOULA COMPANY
(CLOSED JOINT STOCK COMPANY)
INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2016 AND THE PERIOD FROM 2 JULY 2015 TO 31 MARCH 2016
(Expressed in Saudi Riyals)

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INDEPENDENT AUDITORS' REVIEW REPORT ON INTERIM CONDENSED FINANCIAL STATEMENTS

The Shareholders
Tamweel Al Oula Company
(Closed Joint Stock Company)
Dammam, Kingdom of Saudi Arabia

Scope of review:

We have reviewed the accompanying interim condensed statement of financial position of **Tamweel AlOula Company** – A Closed Joint Stock Company (the “Company”) as at 31 March 2016, the related interim condensed statements of income, statement of comprehensive income, statement of cash flows and statement of changes in shareholders’ equity for the three months ended 31 March 2016 and the period from 2 July 2015 to 31 March 2016 and the related notes 1 through 11 which form an integral part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Company’s management and have been prepared by them in accordance with International Accounting Standard - 34 “Interim Financial Reporting” (IAS 34) and submitted to us together with all the information and explanations which we required.

We conducted our review in accordance with the Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (“SOCPA”). A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion:

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed financial statements for them to be in conformity with IAS 34.

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No: 382



Al Khobar, 26 April 2017
Corresponding to: 29 Rajab 1438H

TAMWEEL ALOULA COMPANY
(CLOSED JOINT STOCK COMPANY)
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2016
(Expressed in Saudi Riyals)

	Note	31 March 2016 (Unaudited)
ASSETS		
Non-current assets		
Property and equipment		2,365,873
Intangible assets		3,124,616
Net investment in finance leases	3	203,109,946
Total non-current assets		208,600,435
Current assets		
Current maturity of net investment in finance leases	3	125,117,621
Other receivables		13,197,635
Cash and cash equivalents		1,371,038
Total current assets		139,686,294
TOTAL ASSETS		348,286,729
SHAREHOLDERS' EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
Share capital	4	250,000,000
Retained earnings		7,390,106
TOTAL SHAREHOLDERS' EQUITY		257,390,106
LIABILITIES		
Non-current liabilities		
Employees' end of service benefits		1,197,020
Total non-current liabilities		1,197,020
Current liabilities		
Loans from a shareholder	9	57,343,352
Accounts payable		11,830,386
Due to shareholders	9	10,123,526
Accrued expenses and other liabilities		9,884,897
Zakat provision		517,442
Total current liabilities		89,699,603
TOTAL LIABILITIES		90,896,623
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		348,286,729

Chairman

Chief Executive Officer

Chief Financial Officer

The accompanying notes from 1 to 11 form an integral part of these interim condensed financial statements.

TAMWEEL ALOULA COMPANY
(CLOSED JOINT STOCK COMPANY)
INTERIM CONDENSED STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2016 AND THE PERIOD FROM 2 JULY 2015 TO 31 MARCH 2016
(Expressed in Saudi Riyals)

	<u>Note</u>	For the three months ended 31 March 2016 (Unaudited)	For the period from 2 July 2015 to 31 March 2016 (Unaudited)
INCOME			
Income from operations			
Finance lease		18,441,072	40,421,281
Income / (expenses) from other activities			
Other income / (expenses)		79,309	(151,827)
Total income		<u>18,520,381</u>	<u>40,269,454</u>
EXPENSES			
Special commission expense and bank charges	5	(679,131)	(4,458,291)
Insurance expenses for finance leasing activities		(3,422,252)	(7,897,308)
Allowance for doubtful debts		(5,135,731)	(5,135,731)
Salaries and employee related expenses		(3,224,937)	(9,137,998)
Rent and premises related expenses		(212,500)	(555,415)
Depreciation and amortization		(110,303)	(264,583)
General and administrative expenses		(1,163,898)	(4,912,580)
Total expenses		<u>(13,948,752)</u>	<u>(32,361,906)</u>
PROFIT FOR THE PERIOD BEFORE ZAKAT		<u>4,571,629</u>	<u>7,907,548</u>
Zakat		(172,481)	(517,442)
PROFIT FOR THE PERIOD		<u>4,399,148</u>	<u>7,390,106</u>
Earnings per share - basic and diluted		<u>0.18</u>	<u>0.30</u>

The accompanying notes from 1 to 11 form an integral part of these interim condensed financial statement.

TAMWEEL ALOULA COMPANY
(CLOSED JOINT STOCK COMPANY)
INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2016 AND THE PERIOD FROM 2 JULY 2015 TO 31 MARCH 2016
(Expressed in Saudi Riyals)

	For the three months ended 31 March 2016 (Unaudited)	For the period from 2 July 2015 to 31 March 2016 (Unaudited)
Profit for the period	4,399,148	7,390,106
Other comprehensive income	-	-
Total comprehensive income for the period	4,399,148	7,390,106

The accompanying notes from 1 to 11 form an integral part of these interim condensed financial statements.

TAMWEEL ALOULA COMPANY
(CLOSED JOINT STOCK COMPANY)
INTERIM CONDENSED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2016 AND THE PERIOD FROM 2 JULY 2015 TO 31 MARCH 2016
(Expressed in Saudi Riyals)

	For the period from 2 July 2015 to 31 March 2016 (Unaudited)
OPERATING ACTIVITIES	
Profit for the period	7,390,106
<i>Adjustments:</i>	
Depreciation and amortization	264,582
Special commission expenses and bank charges	4,458,291
Employees' end of service benefits	188,897
Pre-organization expenses and capital work in progress charged	2,456,576
Provision for lease losses	5,135,731
Zakat	517,442
Loss on disposal of property and equipment	452,534
	<u>20,864,159</u>
Changes in operating assets and liabilities	
Net investment in finance leases	54,245,635
Other receivables	(10,128,626)
Due to related parties	10,123,526
Employee' end of service benefits paid	(96,987)
Accounts payable	(24,453,847)
Accrued expenses and other liabilities	7,310,622
Special commission expenses and bank charges paid	(6,627,389)
Net cash from operating activities	<u>51,237,093</u>
INVESTING ACTIVITIES	
Capital expenditure incurred - property and equipment and intangible assets	(868,556)
Proceeds from disposal of property and equipment	770,391
Net cash used in investing activities	<u>(98,165)</u>
FINANCING ACTIVITIES	
Repayment of loans from shareholders	(179,601,036)
Due to shareholders	(137,033,269)
Share capital	250,000,000
Net cash used in financing activities	<u>(66,634,305)</u>
Net change in cash and cash equivalents	(15,495,377)
Cash and cash equivalents (transferred)	16,866,415
Cash and cash equivalent at the end of the period	<u>1,371,038</u>
<u>Non-cash transactions:</u>	
Net investment in finance leases transferred to a shareholder	<u>66,885,421</u>
CWIP transferred to intangible assets	<u>3,112,500</u>

The accompanying notes from 1 to 11 form an integral part of these interim condensed financial statements.

TAMWEEL ALOULA COMPANY
(CLOSED JOINT STOCK COMPANY)
INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2016 AND THE PERIOD FROM 2 JULY 2015 TO 31 MARCH 2016
 (Expressed in Saudi Riyals)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
Share capital introduced	250,000,000	-	250,000,000
Net income for the period	-	7,390,106	7,390,106
31 March 2016 (Unaudited)	<u>250,000,000</u>	<u>7,390,106</u>	<u>257,390,106</u>

The accompanying notes from 1 to 11 form an integral part of these interim condensed financial statements.

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 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 approximate 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), amounted 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 3.3).

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

Significant accounting policies applied in the preparation of these interim condensed financial statements are set out below. These policies are consistently applied for all periods presented.

2.1 Statement of compliance

The interim condensed financial statements of the Company for the three months ended 31 March 2016 and the period from 2 July 2015 to 31 March 2016 have been prepared by the management in accordance with International Financial Reporting Standards (IFRS). Accordingly, these interim condensed financial statements are not intended to be a presentation in conformity with the accounting standards generally accepted in the Kingdom of Saudi Arabia, as issued by the Saudi Organization for Certified Public Accountants (SOCPA).

2.2 Basis of measurement

The Company has prepared these interim condensed financial statements under the historical cost convention on the accrual basis of accounting.

These interim condensed financial statements does not necessarily constitute an indication of the year end financial results.

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATIONS
(continued)

The accounting policies set out below have been applied consistently to the period presented in these financial statements. Some of the comparative figures have been reclassified to conform to the current year's presentation.

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
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.	
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.	
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);

1.5 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 lessee¹ 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. NET INVESTMENT IN FINANCE LEASES

	<u>31 March 2016</u> <u>(Unaudited)</u>
Lease receivables	369,054,522
Residual Value	69,380,916
Gross investment in finance leases	438,435,438
Unearned lease finance income	(96,179,415)
Net investment in finance leases	342,256,023
Provision for lease losses	(14,028,456)
	328,227,567
Current maturity	(125,117,621)
	203,109,946

3.1 The movement in the provision for lease losses was as follows:

	<u>31 March 2016</u> <u>(Unaudited)</u>
Balance at the beginning of the period (Note 1)	8,892,725
Allowance for the period	5,135,731
	14,028,456

3.2 The aging on lease past due - but not impaired:

	<u>31 March 2016</u> <u>(Unaudited)</u>
From 1 day to 30 days	3,805,378
From 31 days to 90 days	6,277,025
Total	10,082,403

3.3 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.

3.4 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.

4. SHARE CAPITAL

The pattern of shareholding as of 31 March 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
	<u>100</u>	<u>25,000,000</u>	<u>250,000,000</u>

5. SPECIAL COMMISSION EXPENSE

	For the three months ended 31 March 2016 (Unaudited)	For the period from 2 July 2015 to 31 March 2016 (Unaudited)
Special commission expense on long term loans from a related party	592,401	4,106,941
Bank charges	86,730	351,350
	<u>679,131</u>	<u>4,458,291</u>

6. 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 shares at the end of the period.

7. 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.

8. FAIR VALUES OF FINANCIAL ASSETS AND 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.

9. RELATED PARTY TRANSACTIONS AND BALANCES

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:

	For the period from 2 July 2015 to 31 March 2016 (Unaudited)
<u>Transactions:</u>	
Al Kifah Holding Company – shareholders	
Repayment of loans	179,601,036
Al Kifah Trading Company – shareholders	
Assets purchased for the purpose of leases	53,249,638
Net assets transferred from shareholders	137,033,269
Al Kifah for Building Materials – shareholders	
Heavy machinery and equipment sales financed by the Company	7,010,000
Net investment in finance leases transferred to shareholder	66,885,421

The above mentioned transactions with related parties resulted in the following balances as at 31 March:

<u>Loan from a shareholder:</u>	31 March 2016 (Unaudited)
Al Kifah Holding Company	<u>57,343,352</u>
<u>Due to shareholders:</u>	31 March 2016 (Unaudited)
Al Kifah Trading Company Due to shareholders'	2,943,223
Al Kifah for Building materials	7,010,000
Al Kifah for client communication	60,000
Al Kifah Contracting	33,647
Al Kifah Information Technology	76,656
	<u>10,123,526</u>

10. COMPARATIVE FIGURES

The Company obtained commercial registration certificate on 15 Ramadan 1436 corresponding to 2 July 2015, therefore, the comparative information in these interim condensed financial statements is not comparable.

11. BOARD OF DIRECTORS' APPROVAL

These condensed interim financial statements were approved on 25 April 2017 corresponding 28 Rajab 1438H.