

Alraedah Finance Company
(A Saudi Closed Joint Stock Company)

**INTERIM CONDENSED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REVIEW REPORT**

**FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE
2019**



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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF ALRAEDAH FINANCE COMPANY (A SAUDI CLOSED JOINT STOCK COMPANY)

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Alraedah Finance Company - A Saudi Closed Joint Stock Company (the "Company") as at 30 June 2019 and the related interim condensed statement of comprehensive income for the three-month and six-month periods ended 30 June 2019 and interim condensed statements of changes in shareholders' equity and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory notes (the "interim condensed financial statements"). Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Fahad M. Al-Toaimi
Certified Public Accountant
License No. (354)

Riyadh: 25 Dhul Qadah 1440H
(28 July 2019)



Alraedah Finance Company
(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three-month and six-month periods ended 30 June 2019

	Note	For the three-month period ended (Unaudited)		For the six-month period ended (Unaudited)	
		30 June 2019 SR	30 June 2018 SR (Restated, note 14)	30 June 2019 SR	30 June 2018 SR (Restated, note 14)
OPERATING INCOME					
Special commission income from Ijara and Murabaha contracts		12,473,293	6,532,862	25,030,430	13,823,716
Finance charges		(2,678,779)	(908,548)	(6,116,118)	(1,780,793)
		9,794,514	5,624,314	18,914,312	12,042,923
Application fees and other income		620,269	396,417	1,120,292	1,280,259
TOTAL OPERATING INCOME, NET		10,414,783	6,020,731	20,034,604	13,323,182
OPERATING EXPENSES					
General and administrative expenses	4	(3,988,742)	(3,601,899)	(7,932,503)	(7,123,714)
Selling and marketing expenses	5	(968,512)	(865,378)	(1,893,995)	(1,886,043)
Impairment loss on assets acquired in satisfaction of claims	7(g)	-	-	-	(1,328,300)
Impairment loss on Ijara and Murabaha receivables	7(b)	(2,551,207)	(697,251)	(3,000,000)	(1,271,998)
Depreciation and amortisation		(465,084)	(315,292)	(927,833)	(626,559)
PROFIT BEFORE ZAKAT		2,441,238	540,911	6,280,273	1,086,568
Zakat		(244,123)	(993,750)	(628,027)	(1,987,500)
NET PROFIT FOR THE PERIOD		2,197,115	(452,839)	5,652,246	(900,932)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD					
		-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		2,197,115	(452,839)	5,652,246	(900,932)

The attached notes 1 to 16 form part of these interim condensed financial statements.

Alraedah Finance Company
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INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		30 June 2019 SR (Unaudited)	31 December 2018 SR (Audited)
	<i>Note</i>		
ASSETS			
Bank balances and cash		49,135,306	52,688,909
Restricted cash deposits		2,988,206	3,208,077
Prepayments and other assets		4,501,911	4,461,492
Ijara and Murabaha receivables	7(a)	276,859,891	193,595,470
Property and equipment		481,732	643,567
Right-of-use assets	13	3,275,745	-
Intangible assets		502,181	672,143
TOTAL ASSETS		337,744,972	255,269,658
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts payable and accruals		26,893,270	16,638,429
Zakat payable	6	4,429,064	3,869,766
Lease liability	13	3,031,373	-
Borrowings	9	128,600,618	65,822,612
Employees' terminal benefits		1,144,902	945,352
TOTAL LIABILITIES		164,099,227	87,276,159
SHAREHOLDERS' EQUITY			
Share capital	8	150,000,000	150,000,000
Statutory reserve		1,983,379	1,418,154
Retained earnings		21,662,366	16,575,345
TOTAL SHAREHOLDERS' EQUITY		173,645,745	167,993,499
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		337,744,972	255,269,658

The attached notes 1 to 16 form part of these interim condensed financial statements.

Alraedah Finance Company
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INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the six-month period ended 30 June 2019

	<i>Share capital</i> SR	<i>Statutory reserve</i> SR	<i>Retained earnings</i> SR	<i>Total</i> SR
<i>For the six-month period ended 30 June 2018</i>				
Balance as at 1 January 2018	150,000,000	1,415,642	5,785,948	157,201,590
Net profit for the period, as restated (note 14)	-	-	900,932	900,932
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period, as restated (note 14)	-	-	900,932	900,932
Transfer to statutory reserve	-	108,657	(108,657)	-
Balance as at 30 June 2018 (unaudited)	<u>150,000,000</u>	<u>1,524,299</u>	<u>4,776,359</u>	<u>156,300,658</u>
<i>For the six-month period ended 30 June 2019</i>				
Balance as at 1 January 2019	150,000,000	1,418,154	16,575,345	167,993,499
Net profit for the period	-	-	5,652,246	5,652,246
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	5,652,246	5,652,246
Transfer to statutory reserve	-	565,225	(565,225)	-
Balance as at 30 June 2019 (unaudited)	<u>150,000,000</u>	<u>1,983,379</u>	<u>21,662,366</u>	<u>173,645,745</u>

The attached notes 1 to 16 form part of these interim condensed financial statements.

Alraedah Finance Company
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INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2019

	Note	30 June 2019 SR (Unaudited)	30 June 2018 SR (Unaudited)
OPERATING ACTIVITIES			
Profit before zakat		6,280,273	1,086,568
<i>Adjustments for:</i>			
Impairment loss on Ijara and Murabaha receivables	7(b)	3,000,000	1,271,998
Depreciation on right-of-use assets		503,960	-
Provision for employees' terminal benefits		234,073	218,329
Amortisation		254,514	165,620
Depreciation on property and equipment		169,359	460,939
Finance charge on lease		100,766	-
Unrealised gain on derivatives		(61,609)	-
Impairment loss on assets acquired in satisfaction of claims	7(g)	-	1,328,300
Amortisation of finance cost		250,000	281,250
Operating cash flows before working capital adjustments		<u>10,731,336</u>	<u>4,813,004</u>
<i>Working capital adjustments:</i>			
Restricted cash deposits		219,871	(797,955)
Ijara and Murabaha receivables		(86,264,421)	(4,271,518)
Prepayments and other assets		(889,517)	(167,935)
Accounts payable and accruals		10,316,450	(191,821)
Cash used in operating activities		<u>(65,886,281)</u>	<u>(616,225)</u>
Employees' terminal benefits paid		(34,523)	(10,283)
Zakat paid	6	(68,729)	(167,292)
Net cash used in operating activities		<u>(65,989,533)</u>	<u>(793,800)</u>
INVESTING ACTIVITIES			
Purchase of property and equipment		(7,524)	(120,250)
Purchase of intangible assets		(84,552)	-
Cash used in investing activities		<u>(92,076)</u>	<u>(120,250)</u>
FINANCING ACTIVITIES			
Proceeds from borrowings		78,620,613	7,979,542
Repayments of borrowings		(16,092,607)	(16,475,929)
Net cash from (used in) financing activities		<u>62,528,006</u>	<u>(8,496,387)</u>
NET DECREASE IN BANK BALANCES AND CASH		<u>(3,553,603)</u>	<u>(9,410,437)</u>
Bank balances and cash at the beginning of the period		<u>52,688,909</u>	<u>26,409,890</u>
BANK BALANCES AND CASH AT THE END OF THE PERIOD		<u><u>49,135,306</u></u>	<u><u>16,999,453</u></u>
<i>Supplementary information:</i>			
Special commission income from Ijara and Murabaha contracts received		<u>11,303,932</u>	<u>13,688,375</u>
<i>Non-cash transactions:</i>			
Right-of-use assets	13	<u>3,779,705</u>	-
Prepaid rent (adjustment upon adoption of IFRS 16)	13	<u>(849,098)</u>	-
Lease liability	13	<u>2,930,607</u>	-

The attached notes 1 to 16 form part of these interim condensed financial statements.

**Alraedah Finance Company
(A Saudi Closed Joint Stock Company)**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2019

1 ACTIVITIES

Alraedah Finance Company (the “Company”) is a Saudi Closed Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration numbered 1010314982 issued in Riyadh on 21 Ramadan 1432H (corresponding to 21 August 2011).

The Company has one branch in Buriyadah under commercial registration numbered 1131056928 dated 24 Shaban 1437H (corresponding to 31 May 2016) and one branch in Dammam under commercial registration numbered 2051222088 dated 17 Dhul-Qadah 1439H (corresponding to 30 July 2018).

The Company is engaged in providing finance lease and finance for small and medium entities in the form of Ijara and Murabaha in accordance with the approval from Saudi Arabian Monetary Authority (“SAMA”).

2 BASIS OF PREPARATION

Saudi Organization for Certified Public Accountants (“SOCPA”) has issued Circular no. 2019/23099 dated 26 Sha’aban 1440H (corresponding to 1 May 2019) as a clarification of Royal Decree no. 36763 dated 3 Rajab 1440H (corresponding to 10 March 2019) relating to the accounting for zakat and income tax. The impact of these amendments is that zakat and income tax are considered to be the liability of the Company and are accordingly accrued and recognised in the interim statement of profit or loss with a corresponding liability recognised.

Pursuant to the clarification from SOCPA; the Company has now revised the accounting for zakat and income tax and prior period numbers for the earliest period presented (i.e. 30 June 2018) have been consequently restated. The effects of the above change which have impacted the comparatives figures are disclosed in note 14 to the interim condensed financial statements.

Further, the interim condensed financial statements have been prepared in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and therefore should be read in conjunction with the Company’s annual financial statements as at and for the year ended 31 December 2018. In addition, the results for the six-month period ended 30 June 2019 is not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

The preparation of interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these interim condensed financial statements, the significant judgments made by management in applying the Company’s accounting policies are the same as those that applied to the annual financial statements for the year ended 31 December 2018, except those relating to adoption of IFRS 16 as disclosed in notes 3 and 13.

Applying the above framework, the interim condensed financial statements of the Company as at and for the three and six months periods ended 30 June 2019 have been prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting.

These interim condensed financial statements have been presented in Saudi Riyals (“SR”), which is the functional currency of the Company.

Assets and liabilities in the interim statement of financial position are presented in the order of liquidity.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
30 June 2019

3 CHANGE TO THE SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

A number of standards, amendments and interpretations are applicable to the Company's financial statements for the first time in 2019, but do not have an impact on the interim condensed financial statements of the Company except for those mentioned below:

a. IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases. It also applies the lease of low-value assets recognition exemption to leases of assets that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
30 June 2019

3 CHANGE TO THE SIGNIFICANT ACCOUNTING POLICIES (continued)

a. IFRS 16 Leases (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms of two to three years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. In doing so, it considers all relevant factors that create an economic incentive for it to exercise the renewal.

After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (i.e., a change in business strategy).

The Company included the renewal period as part of the lease term for leases of commercial space due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., up to three years) and there will be a significant negative effect on operation if a replacement is not readily available.

b. Zakat

Zakat, as clarified by SOCPA dated 3 Rajab 1440H (corresponding to 1 May 2019), is considered to be a liability of the Company and are accordingly recognised in the interim condensed statement of comprehensive income and accrued in the interim condensed statement of financial position (see note 2 - basis of preparation and note 14 – prior period restatements).

4 GENERAL AND ADMINSTRATIVE EXPENSES

	<i>For the three-month period ended 30 June</i>		<i>For the six-month period ended 30 June</i>	
	2019 (Unaudited) SR	2018 (Unaudited) SR	2019 (Unaudited) SR	2018 (Unaudited) SR
Salaries and employees' related cost	2,814,446	2,223,461	5,730,655	4,575,103
Professional fees	454,778	457,997	904,778	924,744
Insurance	120,279	168,304	241,058	194,044
Utilities	66,721	93,864	127,871	143,741
Sharia board fee	36,000	36,000	72,000	72,000
Rent	28,749	288,702	59,166	577,404
Other	467,769	335,571	796,975	636,678
	<u>3,988,742</u>	<u>3,601,899</u>	<u>7,932,503</u>	<u>7,123,714</u>

5 SELLING AND MARKETING EXPENSES

	<i>For the three-month period ended 30 June</i>		<i>For the six-month period ended 30 June</i>	
	2019 (Unaudited) SR	2018 (Unaudited) SR	2019 (Unaudited) SR	2018 (Unaudited) SR
Salaries and employees' related cost	607,218	529,018	1,114,128	962,619
Commission	361,294	336,360	779,867	923,424
	<u>968,512</u>	<u>865,378</u>	<u>1,893,995</u>	<u>1,886,043</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
30 June 2019

6 ZAKAT

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

	30 June 2019 SR <i>(Unaudited)</i>	31 December 2018 SR <i>(Audited)</i>	30 June 2018 SR <i>(Unaudited)</i>
At the beginning of the period / year	3,869,766	14,577,767	14,577,767
Provided during the period / year	628,027	25,120	1,987,500
Excess provision relating to prior years (*)	-	(10,565,829)	-
Paid during the period / year	(68,729)	(167,292)	(167,292)
At the end of the period / year	<u>4,429,064</u>	<u>3,869,766</u>	<u>16,397,975</u>

Status of assessments

As at 30 June 2019, the Company had filed its zakat returns with the General Authority of Zakat and Tax (“GAZT”) for all previous years up to 2018.

(*) Subsequent to the year ended 31 December 2018 and before the issuance of the financial statements for the year ended 31 December 2018, the Company received a communication from GAZT in connection with the settlement of the open zakat assessments of the Company for the years 2016 and 2017. Based on such communication, the Company has reversed zakat provision amounting to SR 10,565,829, being the excess provision made by the Company for the years 2016 and 2017, in the statement of changes in shareholders’ equity in financial statements for year ended 31 December 2018. For the years from 2012 to 2015 and 2018, no assessment has been raised by GAZT yet.

Zakat charge for the period ended 30 June 2019, amounting to SR 628,027, is based on the guidance contained in the aforementioned communication from GAZT.

7 IJARA AND MURABAHA RECEIVABLES

Receivables have original term between 1 to 5 years.

7 (a) Total receivables

	30 June 2019 <i>(Unaudited)</i>			31 December 2018 <i>(Audited)</i>		
	<i>Ijara</i> SR	<i>Murabaha</i> SR	<i>Total</i> SR	<i>Ijara</i> SR	<i>Murabaha</i> SR	<i>Total</i> SR
Gross receivables	8,058,399	349,281,035	357,339,434	9,432,199	259,391,744	268,823,943
Less: unearned finance income	(5,381,207)	(65,517,781)	(70,898,988)	(5,540,986)	(62,955,014)	(68,496,000)
	<u>2,677,192</u>	<u>283,763,254</u>	<u>286,440,446</u>	<u>3,891,213</u>	<u>196,436,730</u>	<u>200,327,943</u>
Less: allowance for impairment losses	(1,000,426)	(8,580,129)	(9,580,555)	(1,000,427)	(5,732,046)	(6,732,473)
Net receivables	<u>1,676,766</u>	<u>275,183,125</u>	<u>276,859,891</u>	<u>2,890,786</u>	<u>190,704,684</u>	<u>193,595,470</u>

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30 June 2019

7 IJARA AND MURABAHA RECEIVABLES (continued)

7 (b) Movement in allowance for impairment losses

	30 June 2019 SR (Unaudited)	31 December 2018 SR (Audited)	30 June 2018 SR (Unaudited)
Balance at the beginning of the period/year	6,732,473	2,267,696	2,267,696
Adjustment for first time adoption of IFRS 9	-	1,927,445	1,927,445
Impairment charge for the period/year	3,000,000	6,201,146	1,271,998
Written off during the period/year	(151,918)	(3,663,814)	-
Balance at the end of the year	<u>9,580,555</u>	<u>6,732,473</u>	<u>5,467,139</u>

7 (c) Expected maturity

The expected maturity of the receivables is as follows:

	30 June 2019 SR (Unaudited)			31 December 2018 SR (Audited)		
	Ijara SR	Murabaha SR	Total SR	Ijara SR	Murabaha SR	Total SR
Within 1 year	2,677,192	210,435,425	213,112,617	3,891,213	132,630,640	136,521,853
1 - 2 years	-	46,998,004	46,998,004	-	37,750,041	37,750,041
2 - 3 years	-	25,095,742	25,095,742	-	24,198,338	24,198,338
3 - 4 years	-	935,129	935,129	-	1,045,913	1,045,913
4 - 5 years	-	298,954	298,954	-	811,798	811,798
Total	<u>2,677,192</u>	<u>283,763,254</u>	<u>286,440,446</u>	<u>3,891,213</u>	<u>196,436,730</u>	<u>200,327,943</u>

7 (d) Aging of receivables (past due but not impaired)

As at reporting date, the ageing of past due but not impaired instalments and the related balances of receivables are as follows:

	< 30 days SR	30 - 60 days SR	61 - 90 days SR	91 - 120 days SR	121 - 180 days SR	Above 180 days SR	Total SR
30 June 2019 (Unaudited)							
Receivables	<u>20,884,324</u>	<u>5,734,841</u>	<u>25,060,589</u>	<u>3,395,712</u>	<u>3,107,837</u>	<u>70,019,293</u>	<u>128,202,596</u>
Delinquent instalments	<u>3,153,237</u>	<u>2,493,308</u>	<u>24,176,246</u>	<u>2,014,646</u>	<u>3,806,215</u>	<u>71,818,031</u>	<u>107,461,683</u>
31 December 2018 (Audited)							
Receivables	<u>17,173,589</u>	<u>6,854,123</u>	<u>1,127,560</u>	<u>1,591,547</u>	<u>5,676,632</u>	<u>69,385,874</u>	<u>101,809,325</u>
Delinquent instalments	<u>3,992,811</u>	<u>2,801,340</u>	<u>2,957,541</u>	<u>2,856,097</u>	<u>6,443,820</u>	<u>63,507,955</u>	<u>82,559,564</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
30 June 2019

7 IJARA AND MURABAHA RECEIVABLES (continued)

7(e) Economic Sector risk concentration for the receivables is as follows

Sector concentration	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Services	45.73%	34.29%
Contracting	22.39%	30.48%
Retail business	16.67%	14.76%
Trading	8.05%	14.34%
Industrial	7.16%	6.13%

7 (f) Collateral

The Company in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the receivables. These collaterals mostly include vehicle, machinery and real estate. The collaterals are held against receivables and are managed against relevant exposures at their net realisable values. The value of the collateral as at 30 June 2019 amount to SR 379,178,924 (31 December 2018: SR 377,253,605) out of which the Company has pledged SR 48,850,776 as at 30 June 2019 (31 December 2018: SR 48,850,776) against the loan facility from Gulf International Bank (see note 9).

7 (g) Assets acquired in satisfaction of claims

During prior years, the Company acquired a real estate property in satisfaction of claims in order to achieve an orderly realization of Murabaha receivables amounting to SR 6,000,000. During 2018, the Company calculated the fair value of real estate property which amounted to SR 4,671,700 and accordingly management recorded an impairment loss of SR 1,328,300 in the interim condensed statement of comprehensive income for the three-month period ended 31 March 2018. Subsequently, during 2018, the Company sold the real estate property which resulted in a further loss of SR 434,450.

8 SHARE CAPITAL

Share capital is divided into 15,000,000 shares (31 December 2018: 15,000,000 shares) of SR 10 each.

9 BORROWINGS

The table below shows the details of the borrowings obtained by the Company:

	30 June 2019 SR (Unaudited)	31 December 2018 SR (Audited)
A Bank borrowings	24,562,949	21,311,625
B Borrowings from a government entity	104,037,669	44,510,987
	<u>128,600,618</u>	<u>65,822,612</u>
Current portion	49,406,183	27,521,193
Non-current portion	79,194,435	38,301,419
	<u>128,600,618</u>	<u>65,822,612</u>

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9 BORROWINGS (continued)

A - Bank borrowings

The Company has a facility with Alawwal Bank amounting to SR 4.5 million (31 December 2018: SR 4.5 million). As at 30 June 2019, SR nil was utilised (31 December 2018: SR 0.8 million). This term loan is secured by assignment of proceeds from receivables and a promissory note and carry borrowing cost at floating rates.

The Company has a term loan facility with Gulf International Bank ("GIB") amounting to SR 37.5 million (31 December 2018: SR 37.5 million). As at 30 June 2019, SR 24.5 million was utilised (31 December 2018: SR 20.5 million). These term loans are secured by collateral, assignment of proceeds from receivables, promissory note, and carry borrowing cost at floating rates.

The Company has paid facility fees on GIB borrowings amounting to SR 0.1 million (31 December 2018: SR 0.6 million) with respect to the term loans facilities which is netted off against the term loans and is amortised over the duration of the facility on an effective interest rate ("EIR") basis.

B - Borrowings from a government entity

During the period, the Company received additional loans from a government entity amounting to SR 75 million (31 December 2018: SR 50 million). This is to be repaid in monthly instalments commencing from January 2019 and June 2019, respectively, with the final instalment of the total loan due in June 2023.

The above loan received by the Company from a government entity carries a fixed special commission rate that is significantly lower than currently prevailing market rate. This loan provided to the Company carries a number of conditions, one of which is that these loans are to be used for providing loans to specific types/sectors of customers at discounted rates. The benefit on these loans amounting to SR 13.109 million being the impact of "lower than market value" loan obtained by the Company has been identified and accounted for as a "government grant" initially and has been recorded as deferred income and classified within "accounts payable and accruals". Such benefit is being recognised in profit or loss of the Company on a systematic basis as the expense for which such grant is intended to compensate is recognised. The amount of government grant not yet recognised in profit or loss as at 30 June 2019 amounts to SR 9.65 million (31 December 2018: SR 2.95 million) and is included within "accounts payable and accruals".

10 RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties.

The following are the details of major related party transactions during the period:

Compensation of key management personnel of the Company

	<i>Amount of transactions for the six-month period ended 30 June</i>	
	<i>2019</i>	<i>2018</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>SR</i>	<i>SR</i>
Remuneration	<u>907,242</u>	<u>820,696</u>

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11 RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk and special commission rate risks), credit risk, legal risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by senior management. The most important risks and their management is summarised below.

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments of the Company will fluctuate due to changes in foreign exchange rates. The Company is not subject to fluctuations in foreign exchange rates in the normal course of its business as neither it undertakes significant transactions nor does it have any significant monetary assets and liabilities denominated in foreign currency.

Special commission rate risk

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company is not subject to variations in the fair value of its financial instruments as none of the fixed rate bearing financial instruments are carried at fair value. However, the Company is subject to variations in special commission income arising from changes to special commission rates on its term loans, which are generally priced on floating rates. The Company manages its special commission rate risk by entering into commission rate swaps ("CRS") against its long term loans.

The sensitivity to an increase/decrease of 15 basis points change in special commission rates on floating rate term loans, with all other variables remaining constant, on the Company's profit or loss for the period/year is a decrease/increase of SR 36,844 (31 December 2018: a decrease/increase of SR 31,967).

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has established a credit policy for corporate borrowers. Furthermore, all the loans are allowed for the maximum term of 60 months. As per such policy, Ijara and Murabaha receivable are not granted unless the borrower meets certain basic requirements, which are set out below:

- Corporate Know Your Customer ("KYC") validation of real operation;
- Income earned through cash flows;
- Collateral provided as equipment, vehicles, machineries, properties, unless exempted; and
- Valuation of above mentioned collateral within basic Finance to Value ("FTV") ratios.

The Company monitors its receivables on a weekly basis. Furthermore, most of the receivables are backed by adequate collaterals.

In case of receivables past due for six months, the Company takes legal actions against the borrower with an aim to either collect the receivable by selling the collaterals against which the financing is provided or force the customers to regularise their overdue positions.

The table below reflects Company's maximum exposure to credit risk for the components on the interim condensed statement of financial position:

	30 June 2019	31 December 2018
	SR	SR
	(Unaudited)	(Audited)
Bank balances and cash	49,135,306	52,688,909
Restricted cash deposits	2,988,206	3,208,077
Ijara and Murabaha receivables	276,859,891	193,595,470
Other assets	3,015,373	2,402,746
	<u>331,998,776</u>	<u>251,895,202</u>

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11 RISK MANAGEMENT (continued)

Legal risk

Title deed of the real estate properties are registered in the name of a board member. The enforceability of any related rights and obligations are subject to interpretation and enforceability in the relevant courts of law.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net financing requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of financing to dry up immediately. Management monitors the maturity profile of the Company's assets and liabilities to ensure that adequate liquidity is maintained.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the interim condensed statement of financial position date to the contractual maturity date.

	<i>On demand</i>	<i>Less than 3</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Without</i>	<i>Total</i>
<i>30 June 2019 (Unaudited)</i>	<i>SR</i>	<i>months</i>	<i>SR</i>	<i>SR</i>	<i>maturity</i>	<i>SR</i>
		<i>SR</i>			<i>SR</i>	
Accounts payable & accruals	-	1,705,004	7,259,948	7,803,075	-	16,768,027
Lease liability	-	1,261,748	-	1,769,625	-	3,031,373
Borrowings	-	13,358,656	36,047,527	89,319,678	-	138,725,861
Total	-	16,325,408	43,307,475	98,892,378	-	158,525,261

	<i>On demand</i>	<i>Less than 3</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Without</i>	<i>Total</i>
<i>31 December 2018 (Audited)</i>	<i>SR</i>	<i>months</i>	<i>SR</i>	<i>SR</i>	<i>maturity</i>	<i>SR</i>
		<i>SR</i>			<i>SR</i>	
Accounts payable & accruals	-	4,700,542	3,105,356	5,373,823	-	13,179,721
Borrowings	-	9,155,632	23,836,617	39,448,259	-	72,440,508
Total	-	13,856,174	26,941,973	44,822,082	-	85,620,229

For the purpose of above disclosures, accrued special commission has been included within borrowings.

12 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

Financial instruments comprise financial asset and financial liabilities. Financial assets of the Company includes bank balances and cash, restricted cash deposits, Murabaha and Ijara receivables and other receivables. Financial liabilities of the Company include borrowings, lease liability and accounts payable and accruals.

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12 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All the financial assets and liabilities of the Company are classified within level 2 of the fair value hierarchy except for Murabaha receivables and borrowings which are classified within level 3 of the fair value hierarchy.

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

The Company's management determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

There have been no transfers between various fair value hierarchy level during the current or prior year.

Following table is a comparison of the carrying amounts and fair values of financial assets and financial liabilities as at 30 June 2019 and 31 December 2018:

	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Carrying amounts SR	Fair values SR	Carrying amounts SR	Fair values SR
<i>Financial assets</i>				
Bank balances and cash	49,135,306	49,135,306	52,688,909	52,688,909
Restricted cash deposits	2,988,206	2,988,206	3,208,077	3,208,077
Ijara and Murabaha receivables	276,859,891	276,859,891	193,595,470	193,595,470
Other assets	3,015,373	3,015,373	2,402,746	2,402,746
Total	331,998,776	331,998,776	251,895,202	251,895,202
<i>Financial liabilities</i>				
Accounts payable and accruals*	16,768,027	16,768,027	13,179,721	13,179,721
Lease liability	3,031,373	3,031,373	-	-
Borrowings*	129,074,031	129,074,031	66,328,875	66,328,875
Total	148,873,431	148,873,431	79,508,596	79,508,596

* For the purpose of above disclosure, accrued special commission has been included within borrowings.

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13 EFFECT OF ADOPTION OF IFRS 16

The Company has adopted IFRS 16 from its mandatory adoption date of 1 January 2019 using the modified retrospective approach as permitted under the specific transition provision in the standard. As a result, comparative of the year ended 31 December 2018 are not restated.

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	SR (Unaudited)
Assets	
Right-of-use assets	3,779,705
Prepayments	(849,098)
	<u>2,930,607</u>
Liability	
Lease liability	<u>2,930,607</u>
Total adjustment on shareholders' equity	<u><u>-</u></u>

The Company has not used the practical expedients of applying IFRS 16 to only those contracts that were previously identified as leases under IAS 17 and IFRIC 4. In adopting IFRS 16, the Company has applied the following practical expedients:

- the use of a single discount rate to a portfolio leases with reasonably similar characteristics;
- accounting for operating leases in accordance with IAS 17 as short-term leases with remaining lease term of less than 12 months as at 1 January 2019;
- exclusion of initial direct costs for the measurement of right-of-use assets at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- the election, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

On adoption of IFRS 16, the Company has recognised lease liability and associated right-of-use assets in relation to contract that has been concluded as lease under the principles of IFRS 16. The liability was measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019. The associated right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of prepayments relating to that lease recognised in the statement of financial position for the year ended 31 December 2018. The weighted average lessee's incremental borrowing rate applied to the lease liability as at 1 January 2019 was 5.02%.

14 PRIOR PERIOD RESTATEMENTS

Pursuant to the clarification from SOCPA and change in accounting policy as out in note 3(b), the Company has charged zakat to the interim condensed statement of comprehensive income. Consequently, the net profit and total comprehensive income for the comparative period have been restated.

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14 PRIOR PERIOD RESTATEMENTS

The change in accounting policy for zakat has the following impacts in the interim condensed statement of comprehensive income for the three-month and six-month period ended 30 June 2018:

	<i>Net profit for the three-month period ended 30 June 2018</i>	<i>Net profit for the six month period ended 30 June 2018</i>
	<u>SR '000</u>	<u>SR '000</u>
Balances for the three-month and six-month periods ended 30 June 2018, as previously stated	540,911	1,086,568
Accounting for zakat	<u>(993,750)</u>	<u>(1,987,500)</u>
Balances for the three-month and six-months periods ended 30 June 2018, as restated	<u>(452,839)</u>	<u>(900,932)</u>

15 COMPARATIVE FIGURES

In addition to prior period restatements in note 14, certain comparative figures have been reclassified to conform with the presentation in the current period.

16 APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the Board of Directors on 23 Dhul Qadah 1440H (corresponding to 26 July 2019).