# ABDUL LATIF JAMEEL UNITED REAL ESTATE FINANCE COMPANY
## (A SAUDI CLOSED JOINT STOCK COMPANY)

## FINANCIAL STATEMENTS
## FOR THE PERIOD FROM
## 28 OCTOBER 2014 TO 31 DECEMBER 2015

**ABDUL LATIF JAMEEL UNITED REAL ESTATE FINANCE COMPANY**
**(A SAUDI CLOSED JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND AUDITOR'S REPORT**
For the period from 28 October 2014 to 31 December 2015

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# AUDITORS' REPORT

To the shareholders
Abdul Latif Jameel United Real Estate Finance Company
(a Saudi Closed Joint Stock Company)

**Scope of audit**

We have audited the accompanying statement of financial position of Abdul Latif Jameel United Real Estate Finance Company (a Saudi Closed Joint Stock Company) (the "Company") as at 31 December 2015 and the related statements of comprehensive income, cash flows and changes in shareholders' equity for the period from 28 October 2014 to 31 December 2015 and the related notes from 1 to 21, which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards, the provisions of Article 123 of the Regulations for Companies and the Company's bye-laws and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. 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:

i) present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and the results of its operations and its cash flows for the period from 28 October 2014 to 31 December 2015 in accordance with the International Financial Reporting Standards; and

ii) comply with the requirements of the Regulations for Companies and the Company's bye-laws with respect to the preparation and presentation of the financial statements.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

13 Jumad Al Awal 1437H
22 February 2016

Jeddah
15/38/00

**ABDUL LATIF JAMEEL UNITED REAL ESTATE FINANCE COMPANY**
**(A SAUDI CLOSED JOINT STOCK COMPANY)**

**STATEMENT OF COMPREHENSIVE INCOME**
For the period from 28 October 2014 to 31 December 2015

| | Note | *For the period from 28 October 2014 to 31 December 2015* *SR* |
|---|---|---|
| Revenues | 5 | **5,484,633** |
| Direct costs | | **(80,201)** |
| **GROSS MARGIN** | | **5,404,432** |
| Net gain on derecognition of receivables | 19(c) | **7,896,583** |
| Net change in present value of assets and liabilities relating to derecognised receivables | | **219,633** |
| **TOTAL OPERATING INCOME** | | **13,520,648** |
| Selling and marketing expenses | 6 | **(5,791,595)** |
| General and administrative expenses | 7 | **(17,261,493)** |
| **TOTAL OPERATING EXPENSES** | | **(23,053,088)** |
| **LOSS FROM OPERATIONS** | | **(9,532,440)** |
| Finance income | | **958,629** |
| **LOSS BEFORE ZAKAT** | | **(8,573,811)** |
| Zakat | 8 | **(5,248,235)** |
| **NET LOSS FOR THE PERIOD** | | **(13,822,046)** |
| **OTHER COMPREHENSIVE INCOME FOR THE PERIOD** *(Items that will not be reclassified to statement of comprehensive income in subsequent periods)* | | |
| Actuarial gains relating to employee benefits liabilities- net | | **223,000** |
| **TOTAL COMPREHENSIVE LOSS FOR THE PERIOD** | | **(13,599,046)** |
| **Basic and diluted loss per share (expressed in SR per share)** | 17 | **(0.69)** |

The attached notes 1 to 21 form an integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

| ASSETS | *Note* | ***31 December 2015 SR*** |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Property and equipment | 9 | **3,499,868** |
| Net investment in finance lease – non-current portion | 10 | **42,304,650** |
| Employees receivable – non-current portion | | **497,270** |
| **TOTAL NON-CURRENT ASSETS** | | **46,301,788** |
| **CURRENT ASSETS** | | |
| Net investment in finance lease – current portion | 10 | **7,913,887** |
| Properties purchased for lease contracts | | **12,770,000** |
| Due from a related party | 16 | **97,573** |
| Prepayments and other receivables | 11 | **1,711,823** |
| Cash and bank balances | 12 | **138,513,302** |
| **TOTAL CURRENT ASSETS** | | **161,006,585** |
| **TOTAL ASSETS** | | **207,308,373** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | 1a | **200,000,000** |
| Statutory reserve | 13 | **839** |
| Accumulated losses | | **(19,761,764)** |
| Actuarial gains | | **135,000** |
| **TOTAL SHAREHOLDERS' EQUITY** | | **180,374,075** |
| **NON-CURRENT LIABILITIES** | | |
| Employee benefits liabilities | 14 | **3,349,513** |
| Other non-current liability | 19c(ii) | **1,663,530** |
| **TOTAL NON-CURRENT LIABILITIES** | | **5,013,043** |
| **CURRENT LIABILITIES** | | |
| Due to related parties | 16 | **155,198** |
| Accounts payable, accrued and other liabilities | 15 | **21,766,057** |
| **TOTAL CURRENT LIABILITIES** | | **21,921,255** |
| **TOTAL LIABILITIES** | | **26,934,298** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **207,308,373** |

The attached notes 1 to 21 form an integral part of these financial statements.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the period from 28 October 2014 to 31 December 2015

| | *Share capital SR* | *Statutory reserve SR* | *Accumulated losses SR* | *Actuarial gains /(losses) SR* | *Total SR* |
|---|---|---|---|---|---|
| Transferred from Abdul Latif Jameel United Real Estate Instalment Company Limited (a Limited Liability Company) on 28 October 2014 (audited) (see 2a and 2c) | 200,000,000 | 839 | (5,939,718) | (88,000) | 193,973,121 |
| Net change in actuarial gain on employee benefits liabilities (14.1 and 14.2) | - | - | - | 223,000 | 223,000 |
| Net loss for the period from 28 October 2014 to 31 December 2015 | - | - | (13,822,046) | - | (13,822,046) |
| Total comprehensive (loss)/income for the period from 28 October 2014 to 31 December 2015 | - | - | (13,822,046) | 223,000 | (13,599,046) |
| **Balance as at 31 December 2015** | **200,000,000** | **839** | **(19,761,764)** | **135,000** | **180,374,075** |

The attached notes 1 to 21 form an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

For the period from 28 October 2014 to 31 December 2015

| | Note | *For the period from 28 October 2014 to 31 December 2015* *SR* |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Loss before zakat | | **(8,573,811)** |
| Adjustments to reconcile income before zakat to net cash flows: | | |
| Depreciation | 9 | **1,490,168** |
| Allowance for doubtful debts | 10a | **1,373,613** |
| Finance income | | **(958,629)** |
| Net gain on derecognition of receivables | 19(c) | **(7,896,583)** |
| Net change in present value of assets and liabilities relating to derecognition of receivables | | **(219,633)** |
| Provision for employee benefits liabilities | 14.1 and 14.2 | **556,789** |
| | | **(14,228,086)** |
| Changes in operating assets and liabilities: | | |
| Net investment in finance lease | | **37,466,527** |
| Prepayments and other receivables and other non-current assets | | **(655,708)** |
| Properties purchased for lease contracts | | **(12,770,000)** |
| Due from a related party | | **428,113** |
| Accounts payable, accrued and other liabilities and other non-current liability | | **14,686,381** |
| Due to related parties | | **(1,959,925)** |
| Cash from operations | | **22,967,302** |
| Zakat paid | 8 | **(4,217,936)** |
| Employee benefits liabilities paid | 14.1 | **(7,510)** |
| Net cash from operating activities | | **18,741,856** |
| **INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | 9 | **(1,069,360)** |
| Finance income received | | **958,629** |
| Other deposits | | **2,524,266** |
| Net cash from investing activities | | **2,413,535** |
| **NET INCREASE IN CASH AND BANK BALANCES** | | **21,155,391** |
| Cash and bank balances transferred from Abdul Latif Jameel United Real Estate Instalment Company Limited (a Limited Liability Company) on 28 October 2014 | | **117,357,911** |
| **CASH AND BANK BALANCES AT THE END OF THE PERIOD** | 12 | **138,513,302** |

| | | |
|---|---|---|
| **NON-CASH TRANSACTIONS** | | |
| Employee benefits liabilities transferred in, net | 14 | **340,547** |
| Actuarial gains of employee benefit liabilities recognized directly in other comprehensive income | 14 | **223,000** |

The attached notes 1 to 21 form an integral part of these financial statements.

## 1 ORGANIZATION AND ACTIVITIES

Abdul Latif Jameel United Real Estate Finance Company (the "Company") is a Saudi Closed Joint Stock Company, initially registered in the Kingdom of Saudi Arabia as a Limited Liability Company under Commercial Registration number 4030213864, issued on 18 Rajab 1432H, (corresponding to 20 June 2011).

The Company's head office is in Jeddah. The principal activity of the Company is to engage in the financing of real estate in the Kingdom of Saudi Arabia.

***a) Share capital of the Company***

As at 31 December 2015, the share capital is owned as follows:

| **Shareholders** | ***No. of shares of SR 10 each*** | ***31 December 2015 SR*** |
|---|---|---|
| Bader First United Company Limited (formerly Bader First Company for Cars and Equipment Leasing) | 200,000 | 2,000,000 |
| Najed Al Raeda United Company Limited (formerly Najid Al Raeda Company for Cars and Equipment Leasing) | 200,000 | 2,000,000 |
| Taif First United Company Limited (formerly Taif First Company Limited for Cars and Equipment Leasing | 200,000 | 2,000,000 |
| Al Mumaizah United Services Company Limited (formerly Al Mumaizah United Services and Instalment Sales Company Limited) | 200,000 | 2,000,000 |
| Al Mumaizah United Commerce Company Limited (formerly Al Mumaizah United Commerce and Installment Sales Company Limited | 19,200,000 | 192,000,000 |
| | **20,000,000** | **200,000,000** |

The Company is a subsidiary of Al Mumaizah United Commerce Company Limited (formerly Al Mumaizah United Commerce and Installment Sales Company Limited) (the "Parent Company"). The ultimate parent of the Company is United Instalment Sales Company Limited ("UIS" or "Ultimate Parent"). The Company and the ultimate parent of the Company are wholly owned by Saudi shareholders.

***b) Change in the name of the Company and conversion of the Company from a Limited Liability Company to a Saudi Closed Joint Stock Company***

The Ministerial Decision number 302, announcing the change of the name of the Company to Abdul Latif Jameel United Real Estate Finance Company and to change the status of the Company from a Limited Liability Company to a Saudi Closed Joint Stock Company, was obtained on 4 Muharram 1436H (corresponding to 28 October 2014).

***c) License from Saudi Arabian Monetary Agency (SAMA)***

During 2013, in order to comply with the new finance regulations, the Company filed an application with Saudi Arabian Monetary Agency (SAMA). On 15 Safar 1436H (corresponding to 7 December 2014), the Company received the license from SAMA to undertake real estate finance activities in the Kingdom of Saudi Arabia under license number 27/PU/201412.

***d) Branches of the Company***

As at 31 December 2015, the Company operates through 3 branches. The accompanying financial statements include the assets, liabilities and results of these branches.

## 2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

### 2.1 Basis of preparation

As per the Bye Laws of the Company at the time of its conversion to a Saudi Closed Joint Stock Company, the first financial statements of the Company will be prepared for the period from 28 October 2014, being date of the ministerial resolution, to 31 December 2015. The Company's first financial period commenced on the date of ministerial resolution and is upto 31 December 2015 (the 'period').

On 28 October 2014, being the date of the ministerial resolution announcing the change of the status of the Company from a Limited Liability Company to a Saudi Closed Joint Stock Company, the net assets of the Limited Liability Company were transferred to the Saudi Closed Joint Stock Company at net book value of SR 193,973,121.

The financial statements are prepared under the historical cost convention.

### 2.2 Statement of compliance

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

These are the Company's first annual financial statements prepared under International Financial Reporting Standards ("IFRS").

The total shareholders' equity as transferred on 28 October 2014 reported under accounting standards generally accepted in the Kingdom of Saudi Arabia, is identical to the total opening shareholders' equity in these financial statements prepared under the IFRS framework, as there are no changes to accounting policies or restatement of numbers.

These financial statements have been presented in Saudi Riyal, which is the functional and presentation currency of the Company.

### 2.3 Significant accounting Judgments, estimates and assumptions

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

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

## 2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

### 2.3 Significant accounting Judgments, estimates and assumptions (continued)

*Going concern*
The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

*Determination of servicing liability*
Under the purchase and agency agreement, the Company has been appointed by the bank to service the receivables purchased by the bank. Assumptions used to calculate the servicing asset / liability are based on estimates of collection costs to be incurred by the Company over the life of the purchase and agency agreement.

*Determination of expected defaults and discounts*
As explained in note 19, in order to calculate the net deferred consideration receivable under the purchase and agency agreement, the Company uses assumptions to calculate the allowance for delinquent receivables and discounts based on historical trends which are updated periodically (at least once in a year or more frequently when needed) based on a change in circumstances which indicate that the historical trends may not be appropriate.

*Determination of discount rate for present value calculations*
Discount rates represent the current market assessment of the risks specific to each cash flow stream, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and is derived from recent market transactions and a market yields overview.

*Actuarial valuation of employee benefits liabilities*
The cost of the end-of-service and ex-gratia benefits ("employee benefits") under defined unfunded benefit plans is determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexity of the valuation and its long-term nature, a defined unfunded benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis or more frequently, if required.

*Impairment of receivables under finance lease*
An estimate of the collectible amount of receivables under finance lease is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due, based on historical recovery rates.

At the reporting date, outstanding finance lease receivables were SR 51,607,287 and the allowance for doubtful debts relating to finance lease receivables was SR 1,388,750. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income of those periods.

## 2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

### 2.4 Amendments to existing standards

As stated in note 2.2, these financial statements from 28 October 2014 to 31 December 2015 are the first set of financial statements of the Company and have been prepared in accordance with IFRS. A number of new and amended standards and interpretations were applicable to the financial statements of the Company with effect from 28 October 2014 and were adopted by the Company.

Amendments to IAS 19 "Employee benefits" applicable for annual periods beginning on or after 1 July 2014 is applicable to defined benefit plans involving contribution from employees and / or third parties. This provides relief, based on meeting certain criteria, from the requirements proposed in the amendments of 2011 for attributing employee / third party contributions to periods of service under the plan benefit formula or on a straight line basis. The current amendment gives an option, if conditions satisfy, to reduce service cost in period in which the related service is rendered.

Annual improvements to IFRS 2010-2012 and 2011-2013 cycle applicable for annual periods beginning on or after 1 July 2014. A summary of the amendments is contained as under:

- IFRS 2 – "Share-based Payment" amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'.

- IFRS 3 – "Business Combinations" amended to clarify that all contingent consideration arrangements classified as liabilities or assets arising from a business combination must be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). IFRS 3 has been further amended to clarify for the scope exceptions within IFRS 3 that; Joint arrangements, not just joint ventures, are outside the scope of IFRS 3. Moreover, this scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- IFRS 8 – "Operating Segments" has been amended to explicitly require disclosure of judgments made by management in applying aggregation criteria. The amendment further clarifies that the reconciliation of segment assets to total assets is required to be disclosed only if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- IFRS 13 – "Fair Value Measurement" has been amended to clarify that the portfolio exception potentially applies to contracts in the scope of IAS 39 and IFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under IAS 32.

- IAS 16 – "Property Plant and Equipment" and IAS 38 – "Intangible Assets": – the amendments clarify the requirements of revaluation model recognizing that the restatement of accumulated depreciation (amortisation) is not always proportionate to the change in the gross carrying amount of the asset.

- IAS 24 – "Related Party Disclosures"– the definition of a related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or indirectly.

- IAS 40 – "Investment Property" clarifies that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition constitutes a business combination.

## 2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

### 2.5 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issue of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company is currently assessing the implications of the below mentioned standards and amendments on the Company's financial statements and the related timing of adoption.

*IFRS 9 Financial Instruments*
In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments" which reflects all phases of the financial instruments project and replaces IAS 39 "Financial Instruments: Recognition and Measurement" and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

*IFRS 15 Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

*IFRS 16 Leases*
IFRS 16 is issued in January 2016 that requires lessees to account for all leases (subject to certain exemptions) under a single on balance sheet model (i.e., in a manner comparable to finance leases under IAS 17). Lessees would recognise a liability to pay rentals with a corresponding asset, and would separately recognise interest expense and amortisation. The standard includes two recognition and measurement exemptions for lessees:

- leases of low-value assets (e.g. small printer;) and
- short-term leases (i.e. leases with a lease term of 12 months or less).

The new standard also requires reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee upon certain events. Lessor accounting would be essentially the same as today's lessor accounting, using IAS 17's dual classification approach.

*Amendments to IAS 1: Disclosure Initiative*
The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify that:

- The materiality requirements in IAS 1.
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.

## 2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

### 2.5 Standards issued but not yet effective (continued)

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in IFRS, and do not affect recognition and measurement.

*Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*
The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.

*Annual improvements 2012-2014 Cycle (issued in September 2014)*
In the 2012-2014 annual improvements cycle, the IASB issued five amendments to four standards, summaries of which are provided below. The changes are effective 1 January 2016. Earlier application is permitted and must be disclosed.

*Amendments to IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations*
Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. The amendment must be applied prospectively.

*Amendments to IFRS 7: Financial Instruments: Disclosures*
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS in order to assess whether the disclosures are required.

The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

*Amendments to IAS 19: Employee Benefits (Discount rate: regional market issue)*
The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted for the preparation of these financial statements are as follows:

**Current versus non-current classification**
The Company presents assets and liabilities in statement of financial position based on current / non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

**Fair value measurement**
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. 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.

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 is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company determines classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**Revenue Recognition**

*Leasing*
Gross investment in finance lease represents the gross lease payments receivable by the Company, and the net investment represents the present value of these lease payments discounted at interest rate implicit in the lease. The difference between the gross investment and the net investment is recognised as unearned finance income. Finance lease income is recognised over the period of the lease on a systematic basis, which results in a constant periodic rate of return on the net investment outstanding.

*Contract fee income*
Contract fee income represents lease initiation, customer credit assessment, property valuation and other fee income and is recognised immediately upon execution of the agreements with the customers.

*Income from purchase and agency agreement*
Income from purchase and agency agreement represents management fees due under the purchase and agency agreement with the bank and is recognised on an accrual basis.

*Finance income*
Finance income is recognized on an accrual basis using the effective yield basis.

**Expenses**
Selling and marketing expenses principally comprise of costs incurred in the marketing and sale of the Company's products / services. All other expenses are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically part of the operating activities of the Company. Allocations between general and administrative expenses and direct costs, when required, are made on a consistent basis.

**Zakat**
The Company is subject to the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is provided on an accruals basis. The zakat charge is computed on the zakat base. Any difference in the estimate is recorded when the final assessment is approved at which time the provision is cleared.

**Foreign currency translation**
Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property and equipment**
Depreciable property and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. The estimated rates of depreciation of the principal classes of assets are as follows:

The estimated rates of depreciation of the principal classes of assets are as follows:

| | |
|---|---|
| Furniture, fixtures and office equipment | 20% - 25% |
| Computer equipment | 33.33% |

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

**Capital work-in-progress**
Capital work-in-progress represents all costs relating directly and indirectly to the project in progress and is capitalized as property and equipment when the project is completed.

**Impairment of non-current assets**
The Company assesses at each reporting date 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 asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs 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 groups of assets. Where 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.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of comprehensive income if those expense categories are consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised 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 recognised.

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 recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments – initial recognition and subsequent measurement

### i) Financial assets

*Initial recognition and measurement*
The Company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus, directly attributable transaction costs, if any.

Financial assets comprises of cash and bank balances, net investment in finance lease, due from related parties, deferred consideration receivable, employees' receivables and other receivables and are initially measured at fair value and thereafter stated at cost or amortized cost as reduced by allowance for doubtful receivables and impairment, if any.

*Subsequent measurement*
For purposes of subsequent measurement financial assets are mainly classified as net investment in finance lease and loans and receivables.

*Net investment in finance lease and loans and receivables*
Net investment in finance lease is carried at amortized cost, less any amounts written off and allowance for doubtful debts. Gross investment in finance lease represents the gross lease payments receivable by the Company and the net investment represents the present value of these lease payments, discounted at interest rate implicit in the lease. The difference between the gross investment and unearned finance income represents net investment which is stated net of allowance for doubtful debts.

*Derecognition of financial assets*
A financial asset or, where applicable a part of a financial asset or part of a group of similar financial assets is derecognised when:

- the contractual right to receive cash flows from the asset has expired; or
- the contractual right to receive cash flows from the asset has not expired, but the Company has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Company has transferred its contractual right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Any resulting gains or losses on derecognition of financial assets are recognised at the time of derecognition of financial assets.

When the Company has transferred its contractual right to receive cash flows from an asset or has entered into a "pass through" arrangement, whereby it has assumed an obligation to pay cash flows from an asset in full without material delay to a third party, but has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

Where the Company is appointed to service the derecognised financial assets for a fee (agency fee), the Company recognizes either a net servicing asset or a net servicing liability for that servicing contract. If the fee to be received is not expected to compensate the Company adequately for performing the service, a net servicing liability for the servicing obligation is recognised at its fair value.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments – initial recognition and subsequent measurement (continued)

#### i) Financial assets (continued)

*Derecognition of financial assets (continued)*
If the fee to be received is expected to be more than adequate compensation for the services to be provided, a servicing asset is recognised for the servicing right. Following initial recognition, net servicing assets, being intangible assets, are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Net servicing assets are amortized over their definite useful economic life (in conformity with the collection arrangements with the bank) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation of net servicing asset is charged to the statement of comprehensive income.

*Impairment of financial assets*
The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The estimated future cash flows are discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of comprehensive income. Assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of comprehensive income.

#### ii) Financial liabilities

*Initial recognition and measurement*
The Company determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value plus, directly attributable transaction costs (where applicable) and thereafter stated at their amortized cost.

Financial liabilities are classified according to the substance of contractual arrangements entered into. Significant financial liabilities include due to related parties, accounts payable and payable under purchase and agency agreement.

*Subsequent measurement*
Financial liabilities are subsequently recognized for amounts to be paid in the future for services received, whether billed by the supplier or not.

*Derecognition of financial liability*
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

#### iii) Offsetting

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Properties purchased for lease contracts**
Properties purchased for lease contracts are recognised in the statement of financial position as a current asset at the time of signing the agreement with the landlord for the purchase of property. Amounts payable to the landlord are recorded under current liabilities in the statement of financial position. Once the legal title of the property is transferred in the Company's name and the finance lease contract is signed with the customer, these assets become part of the net investment in finance lease.

**Provisions**
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

**Employee benefits liabilities**
These represent end-of-service and ex-gratia benefits ("employee benefits") under defined unfunded benefit plans. End-of-service benefits, as required by Saudi Arabia Labor Law, are required to be provided based on the employees' length of service. Ex-gratia benefits represent additional post-employment benefits payable to those employees who leave the Company after completing a minimum of ten years of service.

The Company's net obligations in respect of defined unfunded benefit plans ("the obligations") is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs.

The discount rate used is the market yield on government bonds at the reporting date that has maturity dates approximating the terms of the Company's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Company's present value of the obligation, with actuarial valuations to be carried out every third year and updated for the following two years for material changes, if any. The defined benefit liability comprises the present value of defined benefit obligation as adjusted for any past service cost not yet recognised. Currently there are no past service costs. The full amount of actuarial gains and losses are recognized in statement of changes in equity in the year in which they arise.

**Leases**
Finance leases are those where the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. As lessee, the Company classifies its leases as operating leases and the rentals payments are charged to the statement of comprehensive income on a straight line basis.

**Cash and bank balances**
For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand, cash in bank and short-term murabaha deposits with original maturity of three months or less.

## 4 SEGMENT REPORTING

A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.
The Company carries out its activities entirely in the Kingdom of Saudi Arabia and is only engaged in providing real estate to customers on finance lease as a result, the operations of the Company have been considered as one segment.

## 5 REVENUES

| | *For the period from 28 October 2014 to 31 December2015* *SR* |
|---|---|
| Income from finance leases | **5,102,516** |
| Contract fee income | **203,318** |
| Income from purchase and agency agreement (see note 19) | **178,799** |
| | **5,484,633** |

## 6 SELLING AND MARKETING EXPENSES

| | *For the period from 28 October 2014 to 31 December 2015* *SR* |
|---|---|
| Salaries and related cost | **2,462,725** |
| Advertisement | **940,847** |
| Rent | **345,679** |
| Allowance for doubtful debts (see note 10a) | **1,373,613** |
| Others | **668,731** |
| | **5,791,595** |

## 7 GENERAL AND ADMINISTRATIVE EXPENSES

| | *For the period from 28 October 2014 to 31 December 2015* *SR* |
|---|---|
| Salaries and related cost | **10,036,769** |
| Depreciation (see note 9) | **1,490,168** |
| Professional charges | **2,618,753** |
| Expenses recharged (see note 16) | **281,010** |
| Others | **2,834,793** |
| | **17,261,493** |

## 8 ZAKAT

The principal elements of the zakat base are as follows:

| | *For the period from 28 October 2014 to 31 December 2015* *SR* |
|---|---|
| Non-current assets | **46,301,788** |
| Non-current liabilities | **5,013,043** |
| Opening shareholders' equity | **193,973,121** |
| Loss before zakat | **(8,173,811)** |

Some of these amounts have been adjusted in arriving at the zakat charge for the period. The movement in zakat provision during the period is as follows:

| | *For the period from 28 October 2014 to 31 December 2015* *SR* |
|---|---|
| Transferred from Abdul Latif Jameel United Real Estate Instalment Company Limited (a Limited Liability Company) on 28 October 2014 | **2,626,888** |
| Charge for the period | **5,248,235** |
| Payment made during the period | **(4,217,936)** |
| At the end of the period | **3,657,187** |

**Status of zakat assessments**
The Company has submitted zakat declarations for the period from 20 June 2011 to 31 December 2011 and for the years ended 31 December 2012, 31 December 2013 and 31 December 2014 to Department of Zakat and Income Tax ("DZIT"), which are under review.

## 9 PROPERTY AND EQUIPMENT

| | *Furniture fixtures and office equipment SR* | *Computer equipment SR* | *Capital work-in-progress SR* (see note 'a' below) | ***Total 2015 SR*** |
|---|---|---|---|---|
| **Cost:** | | | | |
| At the beginning of the period | 768,680 | 354,532 | 3,380,465 | **4,503,677** |
| Additions during the period | 260,921 | 425,934 | 382,505 | **1,069,360** |
| Transferred during the period | - | 3,762,970 | (3,762,970) | - |
| At the end of the period | 1,029,601 | 4,543,436 | - | **5,573,037** |
| **Accumulated depreciation:** | | | | |
| At the beginning of the period | 338,331 | 244,670 | - | **583,001** |
| Charge for the period | 219,990 | 1,270,178 | - | **1,490,168** |
| At the end of the period | 558,321 | 1,514,848 | - | **2,073,169** |
| Net book value: | | | | |
| **At 31 December 2015** | **471,280** | **3,028,588** | **-** | **3,499,868** |

a. Capital work in progress mainly represented the cost incurred in relation to the development of a new lease accounting software.

## 10 NET INVESTMENT IN FINANCE LEASE

| | ***31 December 2015 SR*** |
|---|---|
| Gross investment in finance lease | **72,793,203** |
| Less: unearned finance income | **(21,185,916)** |
| | **51,607,287** |
| Less: allowance for doubtful debts (see note a) | **(1,388,750)** |
| Net investment in finance lease | **50,218,537** |

## 10 NET INVESTMENT IN FINANCE LEASE (continued)

| | *Years* | *Gross investment SR* | *Unearned finance income SR* | *Allowance for doubtful debts SR* | *Net Investment SR* |
|---|---|---|---|---|---|
| Current portion | 2016 | 15,359,188 | (6,056,551) | (1,388,750) | **7,913,887** |
| Non-current portion | 2017 | 12,996,750 | (4,780,164) | - | **8,216,586** |
| | 2018 | 11,966,507 | (3,769,579) | - | **8,196,928** |
| | 2019 | 11,538,372 | (2,716,262) | - | **8,822,110** |
| | 2020 | 9,004,411 | (1,670,163) | - | **7,334,248** |
| | 2020 and onwards | 11,927,975 | (2,193,197) | - | **9,734,778** |
| Non-current portion | | 57,434,015 | (15,129,365) | - | **42,304,650** |
| **Total** | | **72,793,203** | **(21,185,916)** | **(1,388,750)** | **50,218,537** |

a) The movement in allowance for doubtful debts is given below:

| | ***For the period from 28 October 2014 to 31 December 2015 SR*** |
|---|---|
| Transferred from Abdul Latif Jameel United Real Estate Instalment Company Limited (a Limited Liability Company) on 28 October 2014 | **15,137** |
| Provided during the period (see note 6) | **1,373,613** |
| At 31 December | **1,388,750** |

b) The ageing of gross finance lease receivables which are past due is as follows:

| | ***31 December 2015 SR*** |
|---|---|
| 1 – 3 months | **85,413** |
| 4 – 6 months | **49,875** |
| 7 – 12 months | **99,750** |
| Over 12 months | **132,631** |
| At 31 December | **367,669** |

The not yet due portion of above overdue finance lease receivables as at 31 December 2015 amounts to SR 3,482,845.

The Company in ordinary course of its business, holds collateral in respect of the finance lease receivables (being the title of properties leased out) in order to mitigate the credit risk associated with them. These collaterals (i.e. real estate) are not readily convertible into cash and are accepted by the Company with intent to dispose off in case of customer default.

## 11 PREPAYMENTS AND OTHER RECEIVABLES

| | ***31 December 2015 SR*** |
|---|---|
| Prepaid expenses | **819,460** |
| Employees' receivables – current portion | **892,363** |
| | **1,711,823** |

## 12 CASH AND BANK BALANCES

| | ***31 December 2015 SR*** |
|---|---|
| Cash in hand | **51,044** |
| Bank balances (see note below) | **138,462,258** |
| | **138,513,302** |

At 31 December 2015, cash and cash equivalents include murabaha deposits of SR 3.5 million representing amounts set aside in respect of employee benefits liabilities.

## 13 STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia and the Company's Bye Laws, the Company has established a statutory reserve by the appropriation of at least 10% of net income after deducting any accumulated losses. The shareholders may resolve to discontinue such transfer when the reserve equals 50% of the share capital through a resolution. This reserve is not available for dividend distribution. As the Company has net loss for the period, therefore, no such transfer to statutory reserve has been made.

## 14 EMPLOYEE BENEFITS LIABILITIES

The main financial assumptions used to calculate the indicative defined unfunded benefit plans liabilities are as follows:

| | **2015** |
|---|---|
| Discount rate | **6.30%** |
| Expected rate of salary increase | **5.50%** |

The amounts recognised in the statement of comprehensive income in respect of these benefits are as follows:

| | ***For the period from 28 October 2014 to 31 December 2015*** |
|---|---|
| Current service cost (see notes 14.1 and 14.2) | **352,789** |
| Interest cost (see notes 14.1 and 14.2) | **204,000** |
| | **556,789** |

**14 EMPLOYEE BENEFITS LIABILITIES (continued)**

The present value of total employee benefits liabilities is as follows:

| | *31 December 2015 SR* |
|---|---|
| End-of-service benefits (see note 14.1) | **1,734,993** |
| Ex-gratia benefits (see note 14.2) | **1,614,520** |
| | **3,349,513** |

14.1 The movement in the present value of the end-of-service benefits is as follows:

| | *For the period from 28 October 2014 to 31 December 2015 SR* |
|---|---|
| At beginning of the period | **1,355,687** |
| Current service cost | **196,352** |
| Interest cost | **104,000** |
| Adjustment for actuarial gains | **(92,000)** |
| Benefits paid | **(7,510)** |
| Transferred in during the period – net (see note 19) | **178,464** |
| At 31 December 2015 | **1,734,993** |

14.2 The movement in the present value of the ex-gratia benefits is as follows:

| | *For the period from 28 October 2014 to 31 December 2015 SR* |
|---|---|
| At beginning of the period | **1,327,000** |
| Current service cost | **156,437** |
| Interest cost | **100,000** |
| Adjustment for actuarial gains | **(131,000)** |
| Transferred in during the period - net | **162,083** |
| At 31 December 2015 | **1,614,520** |

## 15 ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

| | *31 December 2015 SR* |
|---|---|
| Accounts payable – trade | **107, 898** |
| Accrued expenses | **3,335,494** |
| Advances from customers | **8,866,069** |
| Zakat payable (see note 8) | **3,657,187** |
| Payable under purchase and agency agreement (see note 19b) | **597,754** |
| Present value of net servicing liability – current portion (see note 19c(ii)) | **325,894** |
| Provision for expected defaults and discounts under purchase and agency agreement | **828,996** |
| Others | **4,046,765** |
| | **21,766,057** |

## 16 RELATED PARTY TRANSACTIONS AND BALANCES

i) Following are the details of related party transactions during the period from 28 October 2014 to 31 December 2015:

| **Related party** | **Nature of transaction** | ***For the period from 28 October 2014 to 31 December 2015 SR*** |
|---|---|---|
| Ultimate Parent | Collections from Company's customers | 1,129,841 |
| Affiliates | Purchases | 407,371 |
| | Collections from Company's customers | 220,879 |
| | Expenses recharged (see note 7) | 281,010 |
| | Employee benefits liabilities transferred in, net | 340,547 |
| | Insurance charges | 475,208 |
| | Charges for customer evaluations prior to sale or lease | 13,950 |
| | Subscription | 1,500 |

ii) Due from related parties comprise the following:

| | *31 December 2015 SR* |
|---|---|
| United Instalment Sales Company Limited ("Ultimate Parent") | **67,423** |
| Abdul Latif Jameel Import and Distribution Company Limited | **23,570** |
| Abdul Latif Jameel Real Estate Holding Company | **1,183** |
| Abdul Latif Jameel Bodywork and Paint Company Limited | **1,519** |
| Abdul Latif Jameel Technology Products Company Limited | **3,878** |
| | **97,573** |

## 16 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

iii) Due to related parties comprise the following:

| | ***31 December 2015 SR*** |
|---|---|
| Abdul Latif Jameel Company Limited | **2,660** |
| Abdul Latif Jameel Retail Company Limited | **137,652** |
| Abdul Latif Jameel Company for Information and Services Limited | **1,630** |
| Abdul Latif Jameel Commercial Development Company Limited | **12,340** |
| Others | **916** |
| | **155,198** |

iv) The total amount of compensation paid to key management personnel during the period is as follows:

| | ***For the period from 28 October 2014 to 31 December 2015 SR*** |
|---|---|
| Directors' remuneration | **1,901,936** |
| Short-term employee benefits | **3,151,000** |
| Employee benefits liabilities | **201,043** |
| | **5,253,979** |

The Company's Board of Directors includes the Board and other Board related committees (Risk Committee and Audit Committee).

## 17 LOSS PER SHARE

Basic loss per share amounts are calculated by dividing the net loss for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. The calculation of diluted loss per share is not applicable to the Company.

The basic and diluted loss per share are calculated as follows:

| | ***For the period from 28 October 2014 to 31 December 2015 SR*** |
|---|---|
| Net loss for the period | **(13,822,046)** |
| Weighted average number of ordinary shares (see note 1a) | **20,000,000** |
| Basic and diluted loss per share (SR per share) | **(0.69)** |

## 18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to interest rate risk, liquidity risk, credit risk and currency risk. The Company's senior management oversees the management of these risks. The Company's senior management is supported by a Treasury Department that advises on the financial risks and the appropriate financial risk governance framework. The Treasury Department provides assurance to the senior management that the financial risk activities are governed by appropriate policies and procedures and that the financial risks are identified, measured and managed in accordance with the policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

***Market risk***

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk.

*Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. Before entering into purchase and agency arrangement with bank, the Company is exposed to interest rate fair value risk on its financial assets to be sold. The Company monitors the market interest rate movements and negotiates the terms of the agreement with bank and the majority of the receivables are sold to the banks. The Company has realized gains on sale of these financial assets.

The Company is also exposed to interest rate cash flow risk mainly on its short-term deposits. As at 31 December 2015, the average effective interest rate on short-term deposits is 0.55%.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on short term deposits. With all other variables held constant, the Company's loss before zakat is affected by the impact on floating rate short term deposits, as follows:

| | ***Increase / (decrease) in basis points*** | ***Effect on loss for the period SR*** |
|---|---|---|
| ***31 December 2015*** | | |
| *SR* | **10** | **103,533** |
| *SR* | **(10)** | **(103,533)** |

*Interest rate sensitivity of assets, liabilities and off statement of financial position items*

The Company manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarizes the Company's exposure to interest rate risks. Included are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Company is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Company manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

## 18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

***Market risk (continued)***

*Interest rate sensitivity of assets, liabilities and off statement of financial position items (continued)*

| ***31 December 2015*** | ***Interest bearing*** ***Within 1 year*** ***SR*** | ***1 to 5 years*** ***SR*** | ***Over 5 years*** ***SR*** | ***Non-interest bearing*** ***SR*** | ***Total*** ***SR*** |
|---|---|---|---|---|---|
| ***Assets*** | | | | | |
| Property and equipment | - | - | - | 3,499,868 | **3,499,868** |
| Net investment in finance lease | 7,913,887 | 32,569,872 | 9,734,778 | - | **50,218,537** |
| Employees receivable | - | - | - | 497,270 | **497,270** |
| Properties purchased for lease contracts | - | - | - | 12,770,000 | **12,770,000** |
| Due from a related party | - | - | - | 97,573 | **97,573** |
| Prepayments and other receivables | - | - | - | 1,711,823 | **1,711,823** |
| Cash and bank balances | 103,533,127 | - | - | 34,980,175 | **138,513,302** |
| ***Total assets*** | **111,447,014** | **32,569,872** | **9,734,778** | **53,556,709** | **207,308,373** |
| ***Liabilities*** | | | | | |
| Employee benefits liabilities | - | - | - | 3,349,513 | **3,349,513** |
| Other non-current liability | - | - | - | 1,663,530 | **1,663,530** |
| Due to related parties | - | - | - | 155,198 | **155,198** |
| Accounts payable, accrued and other liabilities | - | - | - | 21,766,057 | **21,766,057** |
| ***Total liabilities*** | - | - | - | **26,934,298** | **26,934,298** |
| ***Gap*** | **111,447,014** | **32,569,872** | **9,734,778** | **26,622,411** | **180,374,075** |

## 18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

***Market risk (continued)***

*Currency risk*
Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies, in case the Company does not hedge its currency exposure by means of hedging instruments. All of the purchases and sales of the Company are made in Saudi Riyals. As the Company did not undertake significant transactions in currencies other than Saudi Riyal, during the period, the Company was not exposed to any significant currency risk.

*Other price risk*
The Company is not exposed to other price risk such as equity risk and commodity risk as the Company is neither involved in investment in trading securities nor the commodities.

**Liquidity risk**
Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. This risk is managed through sale of receivables to banks, as disclosed in note 19. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The Company's financial liabilities primarily consist of due to related parties, accounts payable and due to bank under purchase and agency agreement. A significant portion of these financial liabilities are expected to be settled within 12 months from reporting date and the Company expects to have adequate liquid funds to do so.

### a) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Company’s financial liabilities at 31 December 2015 based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date.

**18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Liquidity risk (continued)**

**a) Analysis of financial liabilities by remaining contractual maturities (continued)**

| | ***Fixed maturity*** | | | | | |
|---|---|---|---|---|---|---|
| ***31 December 2015*** | ***Within 3 months SR*** | ***3 to 12 months SR*** | ***1 to 5 years SR*** | ***Over 5 years SR*** | ***No fixed maturity SR*** | ***Total SR*** |
| Due to related parties | 155,198 | - | - | - | - | **155,198** |
| Accounts payable - trade | 107,898 | - | - | - | - | **107,898** |
| Payable under purchase and agency agreement | 597,754 | - | - | - | - | **597,754** |
| Employee benefits liabilities | - | - | - | - | 3,349,513 | **3,349,513** |
| **Total** | **860,850** | - | - | - | **3,349,513** | **4,210,363** |

## 18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Liquidity risk (continued)**

**b) Maturity analysis of assets and liabilities as per management estimation**

The table below shows an analysis of assets and liabilities, analysed according to when they are expected to be recovered or settled.

| | *Fixed maturity* | | | | |
|---|---|---|---|---|---|
| ***31 December 2015*** | ***Within 1 year SR*** | ***1 to 5 years SR*** | ***Over 5 years SR*** | ***No fixed maturity SR*** | ***Total SR*** |
| ***Assets*** | | | | | |
| Property and equipment | - | - | - | 3,499,868 | **3,499,868** |
| Net investment in finance lease | 7,913,887 | 32,569,872 | 9,734,778 | - | **50,218,537** |
| Employees receivable | - | 497,270 | - | - | **497,270** |
| Properties purchased for lease contracts | 12,770,000 | - | - | - | **12,770,000** |
| Due from a related party | 97,573 | - | - | - | **97,573** |
| Prepayments and other receivables | 1,711,823 | - | - | - | **1,711,823** |
| Cash and bank balances | 103,533,127 | - | - | 34,980,175 | **138,513,302** |
| ***Total assets*** | **126,026,410** | **33,067,142** | **9,734,778** | **38,480,043** | **207,308,373** |
| ***Liabilities*** | | | | | |
| Employee benefits liabilities | - | - | - | 3,349,513 | **3,349,513** |
| Other non-current liability | - | - | 1,663,530 | - | **1,663,530** |
| Due to related parties | 155,198 | - | - | - | **155,198** |
| Accounts payable, accrued and other liabilities | 705,652 | - | - | 4,046,765 | **4,752,417** |
| ***Total liabilities*** | **860,850** | **-** | **1,663,530** | **7,396,278** | **9,920,658** |

## 18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Credit risk and concentration of credit risk**
Credit risk arises from the possibility of asset impairment occurring because counter parties cannot meet their obligations in transactions involving financial instruments. The Company is exposed to credit risk on cash and bank balances, net investment in finance lease, employees' receivables, due from related parties and other receivables. The Company has established procedures to manage credit exposure including credit approvals, credit limits, collateral and guarantee requirements. These procedures are based on the Company's internal guidelines.

Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular segment of customers.

The Company manages concentration of credit risk exposure through sale of future net investment in finance lease receivables to banks through purchase and agency agreement. However, the Company mitigates its credit risk through evaluation of credit worthiness by obtaining personal and bank guarantees. For certain types of customers, the maximum credit limits are defined. An allowance for doubtful finance lease is maintained at a level which, in the judgment of management, is adequate to provide for impairment losses on delinquent receivables.

All finance lease are secured mainly through personal guarantees and yield a fixed rate of commission for each contract. The title of the properties sold under finance lease agreements is held in the name of the Company as collateral to be repossessed, in case of default by the customer.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

### c) Collateral held
The Company, in the ordinary course of its financing activities, holds collaterals as security to mitigate credit risk in the finance lease. Fair value of the collateral held by the Company against finance leases by each category are as follows:

| | ***31 December 2015 SR*** |
|---|---|
| Neither past due nor impaired | **62,873,231** |
| Past due but not impaired | **2,143,416** |
| Impaired | **1,048,902** |
| | **66,065,549** |

## 18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Capital Management**

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure. The Company manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in objectives, policies or processes for managing capital during the period from 28 October 2014 to 31 December 2015.

The Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of Regulations for Companies and SAMA. SAMA requires Finance Companies engaged in real estate finance, to maintain aggregate financing to capital ratio of five times.

| | ***31 December 2015*** |
|---|---|
| Aggregate financing to capital ratio<br>(Net investment in finance lease divided by total shareholders' equity) | **0.28 times** |

## 19 PURCHASE AND AGENCY AGREEMENT

The Company has entered into a purchase and agency agreement (the "agreement") with a local bank in respect of certain finance lease receivables (referred as 'receivables')

Under the terms of the agreement, the Company first sells the eligible receivables to the bank net of insurance premiums and then manages them on behalf of the bank as an agent for a monthly fee as per the terms of the agreement.

During the period from 28 October 2014 to 31 December 2015, the Company sold SR 47.8 million of its net receivables and the total amounts received from the bank in respect of such sale was SR 58 million. The Company sold the receivables on 28 October 2014, which is prior to obtaining license from SAMA to operate as a real estate financing company under new finance regulations. Upon sale, the Company derecognizes the receivables from its books and recognizes the difference as either gain or loss on derecognition of receivables (see below).

The following are the significant terms of the agreement:

a) The Company continues to manage the sold receivables on behalf of the bank for a fee (agency fee). As of 31 December 2015, the total settlement of net receivables to be made to the bank as an agent under the agreement amounts to SR 64.6 million. The maturity analysis of derecognized receivables is as follows:

| *Under purchase and agency agreement* | *Upto 1 year* SR | *2 – 3 years* SR | *after 3 years* SR | ***Total*** **SR** |
|---|---|---|---|---|
| **31 December 2015** | **8,068,804** | **15,335,719** | **41,242,103** | **64,646,626** |

## 19 PURCHASE AND AGENCY AGREEMENT (continued)

b) The agreement is supported by a “cash flow statement” which stipulates the principal amount and the monthly receivables falling due. Under the terms of the agreement, the Company, in the capacity of an agent, settles to the bank monthly amount based on the cash flow statement. Any excess collections over and above the stipulated amount and after retaining the amount for the next month’s repayment, are transferred monthly by the Company to the bank. The amount of the next month’s repayment is recognised as a liability and included in ‘accounts payable, accrued and other liabilities’ as payable under purchase and agency agreement (see note 15).

c) A reserve is to be maintained out of the monthly receipts, which is to be distributed at the end of the term of the agreement after deducting the actual defaults and discounts. The balance in the reserve account after deducting the actual defaults and discounts shall be retained by the Company as deferred consideration on sale of receivables. Any shortfall in the reserve account is to be borne by the bank.

During the period from 28 October 2014 to 31 December 2015, the Company made a net gain of SR 7.9 million on derecognition of receivables sold to the bank under the agreement, which is calculated as follows:

| | ***For the period from 28 October 2014 to 31 December 2015 SR*** |
|---|---|
| Gross amount of receivables | **81,977,931** |
| Less: deferred finance income | **34,083,572** |
| Add: present value of net servicing liability (see note ii) | **2,209,058** |
| Less: cash received from the bank | **58,000,000** |
| Net gain on derecognition of receivables | **7,896,583** |

i. The present value of deferred consideration receivable is calculated by deducting the present value of expected defaults and discounts to be incurred over the life of the agreement from the present value of reserve amount to be received per the cash flow statement. This represents the net deferred consideration receivable by the Company under the agreement, calculated as follows:

| | ***31 December 2015 SR*** |
|---|---|
| Present value of deferred consideration receivable | **4,199,143** |
| Less: provision against expected defaults and discounts in respect of sold receivables | **(4,199,143)** |
| | - |

### 19 PURCHASE AND AGENCY AGREEMENT (continued)

ii. The Company's net servicing assets and related liabilities are calculated separately for each agreement by calculating the present value of servicing assets, as per the terms of the agreement, and by estimating the present value of servicing liabilities and related provisions. The net amount is classified as a net servicing asset or a net servicing liability on the statement of financial position. As of 31 December 2015, this has been presented as follows:

| | ***31 December 2015 SR*** |
|---|---|
| Present value of net servicing liability | **1,989,424** |
| Less: current portion (see note 15) | **(325,894)** |
| Non-current portion (disclosed as non-current liability) | **1,663,530** |

The present value of net deferred consideration receivable and the present value of net servicing liability is calculated by using appropriate discount rate (see note 2.3).

### 20 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial assets consist of cash and bank balances, net investment in finance lease, employees' receivables, net deferred consideration receivable, due from related parties and other receivables. Its financial liabilities consist of due to related parties, accounts payable and payable under purchase and agency agreement.

The fair values of the financial instruments are not materially different from their carrying amounts except for the finance lease receivables.

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

### 21 BOARD OF DIRECTORS' APPROVAL

These financial statements were approved by the Board of Directors on 22 February 2016 (corresponding to 13 Jumad Al Awal 1437H).