

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)

CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2018
AND REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2018

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Report on review of interim financial information

To the shareholders of Raya Financing Company:
(A Saudi Closed Joint Stock Company)

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Raya Financing Company as of 30 September 2018 and the related condensed statement of comprehensive income for the three-month and nine-month periods ended 30 September 2018, and the condensed statements of changes in equity and cash flows for the nine-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on this condensed interim financial information 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, as 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 condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34 as modified by SAMA for the accounting of zakat and income tax.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Omar M. Al Sagga', is written over the PricewaterhouseCoopers logo.

Omar M. Al Sagga
License Number 369

25 October 2018

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 30 September 2018 (Unaudited)	As at 31 December 2017 (Audited)
Assets			
Non-current assets			
Property and equipment		474,507	477,719
Intangible assets		7,153,210	7,351,151
Net investment in finance leases - non-current portion	3	122,899,182	92,598,497
		<u>130,526,899</u>	<u>100,427,367</u>
Current assets			
Net investment in finance leases - current portion	3	36,429,252	20,508,730
Prepayments and other receivable	4	10,750,134	4,771,739
Cash and cash equivalents	5	10,432,759	22,267,032
	1	<u>57,612,145</u>	<u>47,547,501</u>
Total assets		<u>188,139,044</u>	<u>147,974,868</u>
Equity and liabilities			
Equity			
Share capital		100,000,000	100,000,000
Accumulated losses		<u>(35,120,274)</u>	<u>(31,200,614)</u>
Total equity		<u>64,879,726</u>	<u>68,799,386</u>
Non-current liabilities			
Long-term borrowings	6	38,808,419	-
Employee benefit obligations		1,807,103	1,387,471
		<u>40,615,522</u>	<u>1,387,471</u>
Current liabilities			
Current maturity of long-term borrowings	6	14,692,422	-
Accounts payable	7	64,343,043	73,858,595
Accrued and other liabilities		3,608,331	2,378,398
Zakat payable	8	-	1,551,018
	1	<u>82,643,796</u>	<u>77,788,011</u>
Total liabilities		<u>123,259,318</u>	<u>79,175,482</u>
Total equity and liabilities		<u>188,139,044</u>	<u>147,974,868</u>

The accompanying notes are an integral part of this condensed interim financial information.

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Saudi Riyals unless otherwise stated)

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Income from finance leases	7,528,253	3,607,738	17,812,694	7,343,849
Expenses				
Impairment of lease receivables	403,708	(215,456)	504,488	(523,456)
Insurance and other cost of financed vehicles	(2,043,901)	(1,479,235)	(4,584,288)	(3,407,709)
General and administrative	(4,000,504)	(2,691,758)	(11,045,904)	(8,217,677)
Selling and marketing	(1,191,918)	(1,067,399)	(3,276,528)	(2,806,327)
Other income, net	195,068	384	28,359	52,876
Operating income (loss)	890,706	(1,845,726)	(561,179)	(7,558,444)
Finance costs (Note 6)	(602,803)	-	(1,791,016)	-
Income (loss) for the period	287,903	(1,845,726)	(2,352,195)	(7,558,444)
Other comprehensive income	-	-	-	-
Total comprehensive income (loss) for the period	287,903	(1,845,726)	(2,352,195)	(7,558,444)

The accompanying notes are an integral part of this condensed interim financial information.

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Accumulated losses	Total
Balance at 31 December 2017 - audited		100,000,000	(31,200,614)	68,799,386
Adjustment on adoption of IFRS 9	3	-	(1,567,465)	(1,567,465)
Balance at 1 January 2018		100,000,000	(32,768,079)	67,231,921
Total comprehensive loss for the period		-	(2,352,195)	(2,352,195)
Balance at 30 September 2018 - unaudited		100,000,000	(35,120,274)	64,879,726
Balance at 1 January 2017 - audited		100,000,000	(20,352,693)	79,647,307
Total comprehensive loss for the period		-	(7,558,444)	(7,558,444)
Zakat charge for the period		-	(125,000)	(125,000)
Balance at 30 September 2017 - unaudited		100,000,000	(28,036,137)	71,963,863

The accompanying notes are an integral part of this condensed interim financial information.

RAYA FINANCING COMPANY
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CONDENSED INTERIM STATEMENT OF CASH FLOWS
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the nine-month period ended 30 September	
		2018	2017
		(Unaudited)	(Unaudited)
Cash flows from operating activities			
Loss for the period		(2,352,195)	(7,558,444)
<u>Adjustments for</u>			
Impairment of lease receivables		(504,488)	523,456
Depreciation		174,544	323,578
Amortization		558,341	558,341
Finance costs		1,791,016	-
Gain on disposal of property and equipment		(28,571)	-
Employee benefit obligations		351,338	202,758
<u>Changes in working capital</u>			
Net investment in finance leases		(47,284,184)	(75,370,689)
Prepayments and other receivable		(5,978,395)	(3,846,455)
Accounts payable		(9,447,258)	51,545,921
Accrued and other liabilities		1,229,933	1,186,526
Net cash used in operating activities		<u>(61,489,919)</u>	<u>(32,435,008)</u>
Cash flows from investing activities			
Payments for purchase of intangible assets		(360,400)	(244,600)
Proceeds from disposal of property and equipment		28,571	-
Payments for purchase of property and equipment		(171,332)	(149,867)
Net cash used in investing activities		<u>(503,161)</u>	<u>(394,467)</u>
Cash flows from financing activities			
Zakat paid		(1,551,018)	-
Proceeds from long-term borrowings	6	60,000,000	-
Repayment of long-term borrowings		(6,929,228)	-
Interest paid		(1,360,947)	-
Net cash generated from financing activities		<u>50,158,807</u>	<u>-</u>
Net decrease in cash and cash equivalents		(11,834,273)	(32,829,475)
Cash and cash equivalents at beginning of period		<u>22,267,032</u>	<u>65,679,614</u>
Cash and cash equivalents at end of period		<u>10,432,759</u>	<u>32,850,139</u>
<u>Supplemental cash flow information</u>			
Non-cash operating activity-			
Employee benefit obligations transferred, net	7.1	<u>68,294</u>	<u>101,359</u>
Non-cash financing activity-			
Zakat provision charged to shareholders' equity		<u>-</u>	<u>125,000</u>

The accompanying notes are an integral part of this condensed interim financial information.

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
Notes to the condensed interim financial information
For the three-month and nine-month periods ended 30 September 2018 (Unaudited)
(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Raya Financing Company (the "Company") is a Saudi closed joint stock company, registered in the Kingdom of Saudi Arabia under the Commercial Registration ("CR") number 2050104609 issued in Dammam on 8 Rabi II 1436H (28 January 2015) and operating under the Saudi Arabian Monetary Authority ("SAMA") approval number 351000153064 dated 25 Dhul Hijjah 1435H (19 October 2014). The Company has obtained the license from SAMA to conduct finance leasing activities on 14 Jumada II 1437H (23 June 2016) and commenced its commercial operations during June 2016. The registered address of the Company is P.O. Box 336, Dammam 31411, Kingdom of Saudi Arabia.

The share capital of the Company as at 30 September 2018 and 31 December 2017 was Saudi Riyals 100 million divided into 10 million shares of Saudi Riyals 10 each and owned by the following Saudi Arabian limited liability companies:

Shareholder's name	Amount	Number of shares	Ownership percentage
Al Majdouie Motors Company Limited	20,000,000	2,000,000	20%
Al Majdouie Food Company Limited	20,000,000	2,000,000	20%
Majd Real Estate Development Company Limited	20,000,000	2,000,000	20%
Al Majdouie Logistics Company Limited	20,000,000	2,000,000	20%
Al Majdouie Education and Training Company Limited	20,000,000	2,000,000	20%
Total	100,000,000	10,000,000	100%

The Company is ultimately owned by Al Majdouie Holding Company Limited, which is a Saudi limited liability company registered in the Kingdom of Saudi Arabia.

At 30 September 2018, the Company's current liabilities exceeded its current assets by Saudi Riyals 25.0 million (31 December 2017: Saudi Riyals 30.2 million) which is primarily due to balance payable to a related party. The Company has entered into an agreement with a local commercial bank for a long-term loan facility of Saudi Riyals 100 million to meet the working capital requirements of the Company, out of which Saudi Riyals 40.0 million is unutilized as of 30 September 2018. Also see Note 6.

2 Basis of preparation

- 2.1** The condensed interim financial information of the Company as at 30 September 2018 and for the three-month and nine-month periods ended 30 September 2018 has been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") as modified by SAMA for the accounting of zakat and income tax, which requires, adoption of all International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per SAMA circular number 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the zakat and income tax are to be accrued through shareholders' equity under retained earnings.
- 2.2** The condensed interim financial information do not include all information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2017.
- 2.3** The principal accounting policies applied in the preparation of condensed interim financial information of the Company are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

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2.4 Standards issued but not yet effective

IFRS 16, 'Leases' was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard is mandatory for accounting periods beginning on or after 1 January 2019, but has not been early adopted by the Company. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. The Company is still in the process of assessing the impact of this standard.

2.5 New and amended standards adopted by the Company

A number of new or amended standards became applicable for the current reporting period and the Company had to change its accounting policies as a result of adopting IFRS 9 Financial Instruments ("IFRS 9"). In accordance with the transitional provisions of IFRS 9, comparative figures have not been restated and the adjustment arising from the new impairment rules has been recognised in the opening balance sheet on 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. The impact of the adoption of this standard and the new accounting policies are disclosed in Note 3 and Note 2.7 respectively.

The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

2.6 Borrowings

Borrowings are initially recognized at the fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition, borrowings are measured at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the condensed interim statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.7 Changes in accounting policies

Financial instruments

(i) Classification

From 1 January 2018, the Company's financial assets are classified and measured at amortised cost as such assets are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest.

(ii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of Company's financial assets are at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

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(iii) Impairment

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Previously, the Company was using incurred loss model.

For net investment in finance leases "lease receivables", the Company applies the three-stage model ('general model') for impairment based on changes in credit quality since initial recognition.

Stage 1 ("Performing") includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the ECL that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset, weighted by the probability that the loss will occur in the next 12 months. Stage 2 ("Under-performing") includes financial instruments that have had a significant increase in credit risk since initial recognition, unless they have low credit risk at the reporting date, but that do not have objective evidence of impairment. A significant increase in credit risk is presumed if a receivable is more than 30 days past due. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the ECL that result from all possible default events over the maximum contractual period during which the Company is exposed to credit risk. ECL are the weighted average credit losses, with the respective risks of a default occurring as the weights.

Stage 3 ("Non-performing") includes financial assets that have objective evidence of impairment at the reporting date. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

The Company, when determining whether the credit risk on a financial instrument has increased significantly, considers reasonable and supportable information available, in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument.

Other instruments are considered as low risk and the Company uses a provision matrix in calculating the expected credit losses.

Financial assets are written off only when:

- (i) the lease or other receivable is at least one year past due, and
- (ii) there is no reasonable expectation of recovery.

Where financial assets are written off, the Company continues to engage enforcement activities to attempt to recover the lease receivable due. Where recoveries are made, after write-off, are recognized as other income in the statement of comprehensive income.

3 Net investment in finance leases

3.1 Reconciliation between gross and net investment in finance leases is as follows:

	30 September 2018	31 December 2017
	(Unaudited)	(Audited)
Gross investment in finance leases	229,341,244	169,292,136
Unearned finance income	(67,571,155)	(54,806,231)
Present value of minimum lease payments receivable	161,770,089	114,485,905
Provision for impairment of lease receivables	(2,441,655)	(1,378,678)
Net investment in finance leases	159,328,434	113,107,227
Investment in finance lease - non-current portion	(122,899,182)	(92,598,497)
Investment in finance lease - current portion	36,429,252	20,508,730

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3.2 The movement in provision for impairment of lease receivables is as follows:

	30 September 2018	31 December 2017
	(Unaudited)	(Audited)
Opening balance	1,378,678	380,623
Adjustment on adoption of IFRS 9	1,567,465	-
	2,946,143	380,623
(Reversal) / charge for the period / year	(504,488)	998,055
Closing balance	2,441,655	1,378,678

As explained in Note 2, the Company elected not to restate prior period, and accordingly, the difference between previous amount of the provision for impairment calculated on incurred loss model and provision for impairment calculated on expected loss model has been recognized in the opening accumulated losses and has been presented in the condensed interim statement of changes in equity.

3.3 Category-wise movement in provision for impairment of lease receivables is as follows:

	Performing	Under- performing	Non- performing	Total
Balance as at 1 January 2018 - unaudited	608,998	164,883	2,172,262	2,946,143
(Reversal) charge for the period	164,159	100,240	(768,887)	(504,488)
Balance as at 30 September 2018 - unaudited	773,157	265,123	1,403,375	2,441,655

3.4 Category-wise gross carrying amounts of lease receivables are as follows:

	30 September 2018	1 January 2018
	(Unaudited)	(Unaudited)
Performing	190,280,896	142,718,294
Under-performing	32,498,806	17,769,389
Non-performing	6,561,542	8,804,453
	229,341,244	169,292,136

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4 Prepayments and other receivable

	30 September 2018	31 December 2017
	(Unaudited)	(Audited)
Prepayments	4,981,605	2,258,851
Margin against letter of guarantee	3,000,000	-
Repossessed assets held for resale	1,090,035	953,803
Advance for investment	892,850	892,850
Insurance claims	622,032	512,593
Other	163,612	153,642
	10,750,134	4,771,739

The Company has outstanding letters of guarantee of Saudi Riyals 3.0 million at 30 September 2018 (2017: Nil) issued in the normal course of business.

5 Cash and cash equivalents

	30 September 2018	31 December 2017
	(Unaudited)	(Audited)
Cash in hand	5,000	5,000
Cash at bank	10,427,759	22,262,032
	10,432,759	22,267,032

6 Long-term borrowings

	30 September 2018	31 December 2017
	(Unaudited)	(Audited)
Murabaha facilities	53,070,772	-
Accrued finance cost	430,069	-
	53,500,841	-

Long-term borrowings are presented as follows:

Current maturity shown under current liabilities	14,692,422	-
Long-term borrowings	38,808,419	-
	53,500,841	-

During 2018, the Company entered into an agreement with a local commercial bank to provide Murabaha financing facility of Saudi Riyals 100 million to meet the working capital requirements of the Company, out of which Saudi Riyals 40.0 million is unutilized as of 30 September 2018. The loan is secured against corporate guarantee from certain related parties, collateral on certain leased vehicles and bears financial charges based on prevailing market rates which are based on Saudi Inter Bank Offer Rates. The carrying value of such long-term borrowings is denominated in Saudi Riyals.

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The contractual maturities of long-term borrowings are as follows:

	30 September 2018	31 December 2017
	(Unaudited)	(Audited)
Less than 6 months	8,290,175	-
6 - 12 months	8,290,175	-
Between 1 and 2 years	16,580,349	-
Between 2 and 5 years	24,870,524	-
	58,031,223	-

7 Related party transactions and balances

7.1 Significant transactions with related parties in the ordinary course of business during the period were as follows:

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Al Majdouie Holding Company Limited - ultimate parent company				
Support service costs charged to the Company	-	-	-	421,833
Employee benefit obligations transferred to the Company	-	-	-	153,610
Al Majdouie Motors Company Limited - shareholder				
Purchases	24,266,081	22,784,468	48,495,361	77,095,046
Employee benefit obligations transferred from the Company	68,294	-	68,294	254,969
Al Majdouie Trading Establishment				
Rent charged to the Company	85,314	100,429	205,971	289,286
Key management personnel				
Key management compensation	732,680	167,751	1,638,105	491,601
Employee benefit obligations	42,876	28,652	150,463	85,955

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7.2 Accounts payable include the following amounts due to related parties:

	30 September 2018	31 December 2017
	(Unaudited)	(Audited)
Al Majdouie Motors Company Limited - shareholder	58,359,157	68,039,735
Sheikh Ali Ibrahim Saleh Al Majdouie	423,001	97,276
Al Majdouie Holding Company Limited - ultimate parent company	151,445	368,147
Arjaa Travel and Tourism Company	29,027	1,820
Al Majdouie Food Company Limited - shareholder	1,854	1,854
Middle East Logistics Institute	-	13,648
Al Majdouie Logistics Company Limited - shareholder	-	751
	58,964,484	68,523,231

8 Zakat payable

	30 September 2018	31 December 2017
	(Unaudited)	(Audited)
Opening balance	1,551,018	1,551,018
Paid during the period / year	(1,551,018)	-
Closing balance	-	1,551,018

9 Date of authorization of issue

The accompanying condensed interim financial information was authorized for issue by the Company's Board of Directors on 25 October 2018.