

**GULF LIFTING FINANCIAL LEASING COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND INDEPENDENT**  
**AUDITORS' REPORT**

**For the year ended**  
**31 December 2017**

**GULF LIFTING FINANCIAL LEASING COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**  
**FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
(Expressed in Saudi Riyals)

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## Independent auditors' report

**To the Shareholders of**  
**Gulf Lifting Financial Leasing Company**  
Dammam, Kingdom of Saudi Arabia

### Opinion

We have audited the financial statements of Gulf Lifting Financial Leasing Company ("the Company"), which comprise the statement of financial position as at 31 December 2017, the statement of profit or loss, statement of other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of Zakat and income tax.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other matter

The Financial Statements of Gulf Lifting Financial Leasing Company for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 13 Jamada Thani 1438H corresponding to 12 March 2017.

### Responsibilities of Management and Board of Directors for the Financial Statements.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of Zakat and income tax, Company's By-Laws and the provisions of Companies' Law and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of Directors are responsible for overseeing the Company's financial reporting process.



## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Gulf Lifting Financial Leasing Company ("the Company").

For KPMG Al Fozan & Partners  
Certified Public Accountants



  
Tariq Abdulrahman Al Sunaid

License No: 419

Al Khobar, 13 Jamada Al-Akhirah 1439H

Corresponding to: 1 March 2018G

**GULF LIFTING FINANCIAL LEASING COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2017**  
(Expressed in Saudi Riyals)

	Note	31 December 2017	31 December 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Net investment in finance leases	3	29,936,957	20,904,328
Advance for investment	4	892,850	-
Intangible asset	5	748,943	-
Property and equipment	6	552,200	488,494
<b>Total non-current assets</b>		<b>32,130,950</b>	<b>21,392,822</b>
<b>Current assets</b>			
Cash and cash equivalents	7	143,987,147	131,894,718
Current maturity of net investment in finance leases	3	12,408,831	42,870,224
Prepayments and other receivable		1,086,900	296,393
Due from a related party	8	-	2,101,554
<b>Total current assets</b>		<b>157,482,878</b>	<b>177,162,889</b>
<b>TOTAL ASSETS</b>		<b>189,613,828</b>	<b>198,555,711</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	9	100,000,000	100,000,000
Additional equity contribution		90,644,283	90,644,283
Accumulated losses		(5,477,645)	(1,101,162)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>185,166,638</b>	<b>189,543,121</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Employee benefits	10	140,469	57,430
<b>Total non-current liabilities</b>		<b>140,469</b>	<b>57,430</b>
<b>Current liabilities</b>			
Provision for Zakat	12	3,609,429	3,343,320
Accrued expenses	11	654,222	265,893
Due to a related party	8	43,070	-
Deposit from a vendor		-	5,051,947
Advance from customers		-	294,000
<b>Total current liabilities</b>		<b>4,306,721</b>	<b>8,955,160</b>
<b>TOTAL LIABILITIES</b>		<b>4,447,190</b>	<b>9,012,590</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>189,613,828</b>	<b>198,555,711</b>

Director

Chief Executive Officer

Finance Manager

The accompanying notes from 1 to 19 form an integral part of these financial statements.



**GULF LIFTING FINANCIAL LEASING COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**  
**STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
(Expressed in Saudi Riyals)

	<u>Note</u>	<u>For the year ended 31 December 2017</u>	<u>For the period from 30 August 2016 to 31 December 2016</u>
<b>INCOME</b>			
<b>Income from operations</b>			
Finance lease		5,181,521	1,853,929
Other income	13	1,517,822	58,587
<b>Total income</b>		<u>6,699,343</u>	<u>1,912,516</u>
<b>EXPENSES</b>			
Salaries and related expenses		(4,085,389)	(541,060)
Legal and professional charges		(1,046,236)	(313,507)
Rent and related expenses		(601,713)	(149,204)
Depreciation charge	6	(141,077)	-
Amortization charge	5	(565,307)	-
Provision for lease losses	3	(946,756)	(97,853)
Other general and administration expenses		(79,919)	(28,226)
<b>Total expenses</b>		<u>(7,466,397)</u>	<u>(1,129,850)</u>
<b>(Loss) / income for the year / period</b>		<u>(767,054)</u>	<u>782,666</u>
<b>(Loss) / earnings per share – basic and diluted</b>	14	<u>(0.0767)</u>	<u>0.0783</u>

The accompanying notes from 1 to 19 form an integral part of these financial statements.

**GULF LIFTING FINANCIAL LEASING COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
(Expressed in Saudi Riyals)

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	<b>For the year ended 31 December 2017</b>	<b>For the period from 30 August 2016 to 31 December 2016</b>
<b>(Loss) / income for the year / period</b>	<b>(767,054)</b>	<b>782,666</b>
Other comprehensive income	-	-
<b>Total comprehensive income for the year / period</b>	<b>(767,054)</b>	<b>782,666</b>

The accompanying notes from 1 to 19 form an integral part of these financial statements.

**GULF LIFTING FINANCIAL LEASING COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
(Expressed in Saudi Riyals)

	Note	For the year ended 31 December 2017	For the period from 30 August 2016 to 31 December 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss) / income for the year / period		(767,054)	782,666
<i>Adjustments for:</i>			
Provision for employee benefits	10	115,039	17,956
Depreciation	6	141,077	-
Amortization	5	565,307	-
Provision for lease losses	3	946,756	-
		<u>1,001,125</u>	<u>800,622</u>
<b>Changes in</b>			
Finance lease receivables		20,482,008	12,011,041
Deposit from a vendor		(5,051,947)	-
Due from related party		2,144,624	117,436,807
Prepayments and other receivables		(790,507)	(38,234)
Advance from customers		(294,000)	-
Accrued expenses		388,329	133,948
Cash generated from operating activities		<u>17,879,632</u>	<u>130,344,184</u>
Employee benefits paid	10	(3,2000)	-
Zakat paid during the year / period	12	(3,343,320)	-
<b>Net cash from operating activities</b>		<u>14,504,312</u>	<u>130,344,184</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	6	(204,783)	(275,630)
Acquisition of intangible asset	5	(1,314,250)	-
Advance for investment	4	(892,850)	-
<b>Net cash used in investing activities</b>		<u>(2,411,883)</u>	<u>(275,630)</u>
<b>Net increase in cash and cash equivalents</b>		<u>12,092,429</u>	<u>130,068,554</u>
Cash and cash equivalents at beginning of the year / period		<u>131,894,718</u>	<u>1,826,164</u>
<b>Cash and cash equivalent at end of the year / period</b>	7	<u>143,987,147</u>	<u>131,894,718</u>
<b><u>Non-cash transactions:</u></b>			
Transfer from capital work in progress to property and equipment	6	<u>476,302</u>	<u>-</u>

The accompanying notes from 1 to 19 form an integral part of these financial statements.



**GULF LIFTING FINANCIAL LEASING COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
(Expressed in Saudi Riyals)

	<b>Share capital</b>	<b>Additional equity contribution</b>	<b>Accumulated losses</b>	<b>Total</b>
30 August 2016	100,000,000	90,644,283	-	190,644,283
Total comprehensive income for the period	-	-	782,666	782,666
Zakat for the period – Note 12	-	-	(1,883,828)	(1,883,828)
31 December 2016	<u>100,000,000</u>	<u>90,644,283</u>	<u>(1,101,162)</u>	<u>189,543,121</u>
Total comprehensive income for the year	-	-	(767,054)	(767,054)
Zakat for the year - Note 12	-	-	(3,609,429)	(3,609,429)
31 December 2017	<u><u>100,000,000</u></u>	<u><u>90,644,283</u></u>	<u><u>(5,477,645)</u></u>	<u><u>185,166,638</u></u>

The accompanying notes from 1 to 19 form an integral part of these financial statement.

**GULF LIFTING FINANCIAL LEASING COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
(Expressed in Saudi Riyals)

**1. CORPORATE INFORMATION**

Gulf Lifting Financial Leasing Company (the “Company”) previously known as “Gulf Lifting Rental Company” is a Saudi closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company is registered in Dammam under commercial registration number 2050030896 dated 19 Shaban, 1416H corresponding to 10 January 1996 and operating under company license number 47/A Sh/201708 dated 14 Dhul Qa’dah 1438H corresponding to 6 August 2017 issued by Saudi Arabian Monetary Agency (“SAMA”).

The Company is engaged in the finance leasing business. The Company is effectively wholly owned by Yusuf Bin Ahmed Kanoo Company Limited.

In 2013, a new Finance Lease Law was enacted in the Kingdom of Saudi Arabia, whereby, only licensed companies are allowed to conduct finance lease business in the Kingdom of Saudi Arabia. Accordingly, the shareholders of the Company (i) filed application with relevant authorities to secure license to conduct finance lease business; (ii) increased the capital of the Company from SR 40 million to SR 100 million as required by the law; and (iii) resolved to transfer all the business activities and related assets and liabilities at carrying amount of operating lease business to a shareholder effective from 1 January 2013. During 2016, the Company received initial approval of the acceptance of application from the Saudi Arabia Monetary Agency (SAMA).

During 2016, the shareholders of the Company resolved to change the name of the Company from Gulf Lifting Rental Company to Gulf Lifting Financial Leasing Company. Further, the Company was converted from limited liability company into a closed joint stock company in accordance with Ministerial Resolution number 287/Q dated 27 Dhu Al Qa’dah 1437H, corresponding to 30 August 2016. The legal formalities associated with the change in name and legal status of the Company were completed during 2016.

In view of the change in legal status, the shareholders also resolved to (i) convert statutory reserve and retained earnings to additional equity contribution at 30 August 2016 and (ii) transfer the assets, liabilities and activities of the company to Closed Joint Stock Company.

The breakdown of the balances transferred is as follows:

	<b>Amount- SR</b>
Cash and cash equivalents	1,826,164
Lease receivables	75,785,593
Other receivables	258,159
Amount due from a partner	119,538,361
Capital work in progress	212,864
Deposit from a vendor	(5,051,947)
Advances from customers	(294,000)
Accrued expenses	(131,945)
Provision for Zakat	(1,459,492)
Employee benefits	(39,474)
<b>Net equity</b>	<b>190,644,283</b>
Capital transferred from former company	(100,000,000)
Additional equity contribution	(90,644,283)
	-

Pursuant to the Company’s application for license with SAMA, the Company was restricted from undertaking any new lease contracts till receipt of license. During the year, the Company has received license from SAMA for practice of finance lease business in Kingdom of Saudi Arabia on to 14 Dhul Qahda 1438H corresponding 6 of August 2017.

**GULF LIFTING FINANCIAL LEASING COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
**(Expressed in Saudi Riyals)**

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**2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION**

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

**2.1 Statement of compliance**

Pursuant to receipt of license from SAMA as explained in note 1, these are the first financial statements prepared by the Company. The Company has adopted International Financial Reporting Standards (“IFRS”) and these financial statements have been prepared in accordance with ‘International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority (“SAMA”) for the accounting of Zakat and income tax’, which requires, adoption of all IFRSs 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 the SAMA Circular no. 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 on a quarterly basis through shareholders equity under retained earnings.

Until 2016, the financial statements of the Company were prepared in accordance with generally accepted accounting standards in Kingdom of Saudi Arabia, as issued by the Saudi Organization for Certified public Accountants (SOCPA).

The above change has not resulted in any significant impact on these financial statements except for certain additional disclosure in these financial statements and certain changes in accounting policies as disclosed in note 2.5. Accordingly following reconciliations are not presented in these financial statements:

- a) Statement of Financial position reconciliation from SOCPA to IFRS as at 31 December 2016;
- b) Statement of shareholders’ equity reconciliation from SOCPA to IFRS as at 31 December 2016;
- c) Statement of profit or loss reconciliation from SOCPA to IFRS for the comparative period; and
- d) Statement of comprehensive income reconciliation from SOCPA to IFRS for the comparative period.

Since the adoption of IFRS does not have any impact on these financial statements therefore exemptions allowed under IFRS 1 were not applicable for the Company.

**2.2 Basis of measurement**

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

**2.3 Functional and presentation currency**

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

**GULF LIFTING FINANCIAL LEASING COMPANY**  
(CLOSED JOINT STOCK COMPANY)  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
(Expressed in Saudi Riyals)

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**2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)**

**2.4 Standards, new pronouncements and interpretations:**

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

- Disclosure initiative (Amendment to IAS 7), effective for annual period on or after 1 January 2017.
- Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12) effective for annual period on or after 1 January 2017.
- Annual improvements to IFRSs 2014 – 2016 Cycle – various standards, effective for annual period on or after 1 January 2017.

**b) Standards, interpretations and amendments to published standards that will be effective for the periods commencing after January 1, 2018 and have not been early adopted by the Company**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

The Company's management decided not to choose the early adoption of the following new and amended standards and interpretations issued which will become effective for the period commencing after January 1, 2018;

- Implementation of IFRS 9 is expected to result in a significant portion of financial assets currently classified as available-for-sale being re-classified as at fair value through profit or loss or fair value through other comprehensive income (OCI). Credit allowances for financial assets carried at amortized cost are expected to increase due to the introduction of the expected credit loss methodology. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 9 which is not expected to be significant.
- IFRS 16 Leases, effective for annual period on or after 1 January 2019. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.
- The IASB issued IFRS 17 in May 2017. IFRS 17 will be mandatorily effective for annual reporting periods beginning on or after 1 January 2021. Once effective, IFRS 17 replaces IFRS 4 Insurance Contracts that was issued in 2005. The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally.

The following new or amended standards are not expected to have significant impact on the financial statements.

- IFRS 15 Revenue from contracts with customers, effective for annual period on or after 1 January 2018.
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) effective for annual period on or after 1 January 2018.
- Transfers of Investment Property (Amendments to IAS 40) effective for annual period on or after 1 January 2018.
- Annual Improvements to IFRSs 2014–2016 Cycle – various standards (Amendments to IFRS 1 and IAS 28) effective for annual period on or after 1 January 2018.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration effective for annual period on or after 1 January 2018.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) effective for annual period on or after to be determined.

**GULF LIFTING FINANCIAL LEASING COMPANY**  
**(CLOSED JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
**(Expressed in Saudi Riyals)**

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**2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)**

**2.5 Accounting policies**

Following accounting policies have been applied in preparation of these financial statements. These policies have been applied consistently for all period presented.

- a) Pursuant to adoption of IFRS as explained in note 2.1, the Company has applied IAS 1 "Presentation of Financial Statements" and has adopted two statement presentation and has presented separate statement of "Other Comprehensive Income". Accordingly, the Company has presented all changes in owners' equity in the statement of changes in equity, whereas all non-owner changes in equity are presented in the statement of other comprehensive income.
- b) During the year, the Company changed its accounting policy relating to the presentation of Zakat provisions which were previously presented in statement of profit or loss to align with SAMA guidelines. In line with changes in accounting policy referred to in note 2.1, Zakat provisions are directly charged to the statement of changes in shareholders' equity.

The change in accounting policy resulted in increase in profit for the period from 30 August 2016 to 31 December 2016 by SR 1.8 million. Had there been no change in the accounting policy the loss for the year ended 31 December 2017 would have been higher by SR 3.6 million. This change does not have any impact on financial position or equity of the Company.

**2.5.1 Property and equipment**

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

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

Depreciation is calculated using the straight line method over its estimated useful life of the assets as mentioned below, after taking into account their respective residual value.

	<u>Number of years</u>
Leasehold improvements	5
Office furniture and fixtures	5-7
Information technology equipment	4

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

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

**2.5.2 Intangible assets**

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

**GULF LIFTING FINANCIAL LEASING COMPANY**  
(CLOSED JOINT STOCK COMPANY)  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
(Expressed in Saudi Riyals)

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**2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)**

**2.5.2 Intangible assets (continued)**

Amortization is calculated to writeoff the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful life, and is generally recognized in statement of profit or loss.

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

**2.5.3 Net investment in finance leases**

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

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

**2.5.4 Allowances and provisions**

**Allowances for lease losses**

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

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

**Other provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimates.

**2.5.5 Zakat**

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

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**2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)**

**2.5.6 Expenses**

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

**2.5.7 Financial instruments**

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the Company loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires.

On derecognition of a financial asset or financial liability, the difference between the carrying amount and the consideration received (and receivable) or paid (and payable) is recognised in the statement of profit or loss.

**a) Financial assets**

**Initial recognition and measurement**

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

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

**Subsequent measurement**

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

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

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

**Loans and receivables**

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

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**2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)**

**2.5.7 Financial instruments (Continued)**

**b) Financial liabilities**

**Initial recognition and measurement**

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

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

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

**Subsequent measurement**

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

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

**Other financial liabilities**

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

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

**2.5.8 Fair value measurement**

The Company measures financial instruments, at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.



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**2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)**

**2.5.9 Offsetting**

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

**2.5.10 Cash and cash equivalents**

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

**2.5.11 Proposed dividend and transfer between reserves**

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

**2.5.12 Revenue recognition-Finance leases**

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

Any other income is recognized when the realization of income is virtually certain and earned by the Company

**2.5.13 Employee benefits**

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

**2.5.14 Impairment and uncollectability of assets**

**Financial assets:**

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

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

If such evidence exists, an impairment loss is recognized in the statement of profit or loss. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of profit or loss;

(b) For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

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**2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)**

**2.5.14 Impairment and uncollectability of assets (Continued)**

**Non-financial assets:**

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

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

**2.5.15 Borrowing costs**

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

**2.5.16 Statutory reserve**

As required by Saudi Arabian Regulations for Companies and the Company's By-laws, 10% of the income for the period should be transferred to the statutory reserve. This reserve is not available for distribution. As per the By-laws, the Company may resolve to discontinue such transfers when the reserve totals 30% of the capital.

**2.6 Significant accounting judgments, estimates and assumptions**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

- a) Determining the residual values and useful lives of property and equipment (Note 2.5.1);
- b) Determining the useful life of intangible asset (Note 2.5.2) ;
- c) Allowance for lease losses (Note 2.5.4);
- d) Zakat (Note 2.5.5 and Note 12) ;

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**3. NET INVESTMENT IN FINANCE LEASES**

	<u>31 December 2017</u>	<u>31 December 2016</u>
Gross investment in finance lease	52,995,131	70,288,278
Less: Unearned lease finance income	(9,490,947)	(6,302,086)
<b>Net investment in finance leases</b>	<b>43,504,184</b>	<b>63,986,192</b>
Provision for lease losses	(1,158,396)	(211,640)
	42,345,788	63,774,552
Current maturity	(12,408,831)	(42,870,224)
	<u>29,936,957</u>	<u>20,904,328</u>

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

	<u>For the year ended 31 December 2017</u>	<u>For the period from 30 August to 31 December 2016</u>
Balance at the beginning of the year / period	211,640	113,787
Allowance for the year / period	946,756	97,853
Reversal during the year / period	-	-
<b>Balance at the end of the year / period</b>	<b>1,158,396</b>	<b>211,640</b>

**3.2 The age analysis on the net investment in finance leases:**

	<u>31 December 2017</u>	<u>31 December 2016</u>
<b>Neither past due nor impaired</b>	<b>42,546,886</b>	<b>43,700,771</b>
Past due 1-30 days	536,283	3,373,722
Past due 31-90 days	-	2,880,223
Past due 91-180 days	-	9,395,664
Past due 181-365 days	287,250	4,424,172
Over 1 year	133,765	211,640
	43,504,184	63,986,192
Less: Allowance for lease losses	(1,158,396)	(211,640)
<b>Net of allowance</b>	<b>42,345,788</b>	<b>63,774,552</b>

**3.3 The maturity of the gross investment in finance leases as at 31 December 2017 is as follows:**

	<u>Gross investment in finance leases</u>	<u>Unearned lease finance income</u>	<u>Net investment in finance leases</u>
Not later than one year	16,938,081	(4,408,734)	12,529,347
Later than one year but not later than five years	36,057,050	(5,082,213)	30,974,837
	<u>52,995,131</u>	<u>(9,490,947)</u>	<u>43,504,184</u>

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**4. ADVANCE FOR INVESTMENT:**

During the year, SAMA initiated the process to incorporate a new entity “Saudi Company for the Registration of Finance Lease Contracts” to register all leasing contracts in the Kingdom of Saudi Arabia and instructed all leasing companies and banks to contribute to the foundation of the new entity.

Pursuant to SAMA instructions dated 13 November 2017 for founding this new entity, the Company has paid an advance of SR 892,850 to subscribe shares in Saudi Company for the Registration of Finance Lease Contracts.

**5. INTANGIBLE ASSET:**

	<u>31 December 2017</u>
<b><u>Cost:</u></b>	
1 January 2017	-
Additions	1,314,250
<b>31 December 2017</b>	<u><u>1,314,250</u></u>
<b><u>Accumulated amortization:</u></b>	
1 January 2017	-
Charge for the year	565,307
<b>31 December 2017</b>	<u><u>565,307</u></u>
<b><u>Net book value:</u></b>	
<b>31 December 2017</b>	<u><u>748,943</u></u>
31 December 2016	<u><u>-</u></u>

Intangible asset represents license for Orion ERP.

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**6. PROPERTY AND EQUIPMENT:**

<u>Cost:</u>	<u>Leasehold improvements</u>	<u>Office furniture and fixtures</u>	<u>Information technology equipment</u>	<u>Capital work in progress</u>	<u>Total</u>
1 January 2017	-	-	-	488,494	488,494
Additions	43,265	19,600	154,110	-	216,975
Transferred from capital work in progress	185,532	142,895	147,875	-	476,302
Transferred to property and equipment	-	-	-	(476,302)	(476,302)
Written off during the year	-	-	-	(12,192)	(12,192)
<b>31 December 2017</b>	<b>228,797</b>	<b>162,495</b>	<b>301,985</b>	<b>-</b>	<b>693,277</b>
30 August 2016	-	-	-	-	-
Additions	-	-	-	488,494	488,494
31 December 2016	-	-	-	488,494	488,494
<u>Accumulated depreciation:</u>					
1 January 2017	-	-	-	-	-
Charge for the year	54,785	20,357	65,935	-	141,077
<b>31 December 2017</b>	<b>54,785</b>	<b>20,357</b>	<b>65,935</b>	<b>-</b>	<b>141,077</b>
30 August 2016	-	-	-	-	-
Charge for the period	-	-	-	-	-
31 December 2016	-	-	-	-	-
<u>Net book value:</u>					
<b>31 December 2017</b>	<b>174,012</b>	<b>142,138</b>	<b>236,050</b>	<b>-</b>	<b>552,200</b>
31 December 2016	-	-	-	488,494	488,494

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**7. CASH AND CASH EQUIVALENTS:**

	<u>31 December 2017</u>	<u>31 December 2016</u>
Cash in hand	15,000	15,000
Cash at bank	2,068,333	629,718
Short term deposits	141,903,814	131,250,000
	<u>143,987,147</u>	<u>131,894,718</u>

Short term bank deposits are denominated in Saudi Riyals and US Dollars with local banks and are made for varying periods from 1 month to 3 month and carry interest rates ranging from 1% to 1.4% per annum (2016: 1% to 1.15%).

**8. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties represented shareholder, directors and key management personnel of the Company, and entity controlled or significantly influenced by such parties:

The Company is required to pay remuneration to the members of Board of Directors, under Bye-Laws, for participation in Board of Director's meeting held during the period, all the directors have waived their right to receive the remuneration.

Prices and terms of payment with related are approved by the management. Amount due from/to a shareholder are disclosed in the statement of financial position.

**Transactions with related party:**

	<u>For the year ended 31 December 2017</u>	<u>For the period from 30 August 2016 to 31 December 2016</u>
<b>Yusuf Bin Ahmed Kanoo Company Limited – a shareholder</b>		
Expenses paid on behalf of the Company	7,701,248	1,269,844
Collections made on behalf of the Company	20,686,000	5,812,920
Zakat paid on behalf of the Company	3,343,320	-
Assets purchased on behalf of the Company	1,529,969	-
Advance paid for investment	892,850	-

Key management personnel compensation comprised of the following transactions:

	<u>31 December 2017</u>	<u>For the period from 30 August 2016 to 31 December 2016</u>
<b><u>Transactions:</u></b>		
Compensation of key management executives	780,000	325,000

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**8. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)**

The above mentioned transactions with related parties resulted in the following balances:

**Due to related party:**

	<u>31 December 2017</u>	<u>31 December 2016</u>
Yusuf Bin Ahmed Kanoo Company Limited	43,070	-

**Due from related party:**

	<u>31 December 2017</u>	<u>31 December 2016</u>
Yusuf Bin Ahmed Kanoo Company Limited	-	2,101,554

**9. SHARE CAPITAL**

The pattern of shareholding as of 31 December 2017 and 31 December 2016 is as follows:

	<b>Percentage of ownership</b>	<b>Number of Shares</b>	<b>Amount SR</b>
Yusuf Bin Ahmed Kanoo Company Limited	94	9,400,000	94,000,000
Ali Abdulla Kanoo	1	100,000	1,000,000
Ali Abdulaziz Kanoo	1	100,000	1,000,000
Saud Abdulaziz Kanoo	1	100,000	1,000,000
Bader Abdulaziz Kanoo	1	100,000	1,000,000
Faisal Khalid Kanoo	1	100,000	1,000,000
Ahmed Fawzi Kanoo	1	100,000	1,000,000
	<u>100</u>	<u>10,000,000</u>	<u>100,000,000</u>

**10. EMPLOYEE BENEFITS**

	<u>31 December 2017</u>	<u>For the period from 30 August 2016 to 31 December 2016</u>
Balance at the beginning of the year / period	57,430	39,474
Provision during the year / period	115,039	17,956
Payments made during the year / period	(32,000)	-
Balance at the end of the year / period	<u>140,469</u>	<u>57,430</u>

The Company did not conduct actuarial valuation of employees' end of service liability as the management believes that the impact of actuarial valuation will not be material.

**11. ACCRUED EXPENSES AND OTHER LIABILITIES**

	<u>31 December 2017</u>	<u>31 December 2016</u>
Accrued expenses	180,200	98,000
Other payables	474,022	167,893
	<u>654,222</u>	<u>265,893</u>

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**12. ZAKAT**

**a) Charge for the year**

i) Zakat charge for the year / period ended 31 December comprises of the following:

	<u>31 December 2017</u>	<u>For the period from 30 August 2016 to 31 December 2016</u>
Charge for the year / period	<u>3,609,429</u>	<u>1,883,828</u>

ii) The significant components of Zakat base for the Company are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Shareholders' equity	<u>190,644,283</u>	62,451,217
Other adjustments	<u>(46,990,603)</u>	12,003,416
	<u>143,653,680</u>	74,454,633
Adjusted profit for the year / period	<u>723,475</u>	898,475
Zakat base	<u>144,377,155</u>	<u>75,353,108</u>

Significant components of Zakat base of the Company principally comprise of shareholders' equity at the beginning of the period, adjusted net income and certain other items. Some of these amounts have been adjusted in arriving at Zakat charge for the year / period.

**b) Provision for Zakat**

The movement in provision for Zakat during the year / period ended 31 December is as follows:

	<u>31 December 2017</u>	<u>For the period from 30 August 2016 to 31 December 2016</u>
Balance at beginning of the year / period	<u>3,343,320</u>	1,459,492
Add: Charge for the year / period	<u>3,609,429</u>	1,883,828
Less: Payments during the year / period	<u>(3,343,320)</u>	-
Balance at end of the year / period	<u>3,609,429</u>	<u>3,343,320</u>

Zakat for the year is payable at 2.5% of higher of the approximate Zakat base and adjusted net income attributable to the shareholders.

**c) Status of assessments**

The Company has submitted its Zakat declarations with the General Authority of Zakat and Tax (GAZT) up to the year 2016. The Company has obtained its Zakat certificate for the year ended December 31, 2016, which is valid up to 30 April 2018.

**Provision for Zakat**

Provision for Zakat has been made at 2.5% of approximate Zakat base attributable to the Saudi shareholders of the Company.



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**13. OTHER INCOME**

Other income represents the interest income on short term deposits amounting to SR 1,517,822 (2016: SR 58,587).

**14. BASIC AND DILUTED EARNINGS PER SHARE**

The basic and diluted earnings per share is calculated by dividing the (loss) / profit for the year / period attributable to the shareholders by weighted average number of shares at the end of the year / period.

<i>Basic and diluted (loss) / earnings per share:</i>	<u>2017</u>	<u>2016</u>
Net (loss) / income for the year / period	<u>(767,054)</u>	<u>782,666</u>
<i>Weighted average number of outstanding shares</i>		
Number of shares	<u>10,000,000</u>	<u>10,000,000</u>
Basic and diluted (loss) / earnings per share	<u>(0.0767)</u>	<u>0.0783</u>

**15. OPERATING LEASE AGREEMENTS**

Operating lease payments represent rental payable by the Company for its premises for a period from 1 to 5 years. Expense recognized for the year / period ended 31 December, and commitments for minimum lease payments under non-cancelable operating leases are as follows:

	<u>31 December 2017</u>	<u>For the period from 30 August 2016 to 31 December 2016</u>
Payments under operating lease recognized as expense during the year / period	<u>240,000</u>	<u>92,515</u>
	<u>2017</u>	<u>2016</u>
Within one year	<u>225,000</u>	<u>240,000</u>
Between two and five years	<u>225,000</u>	<u>-</u>

**16. CONTINGENCIES AND COMMITMENT**

The Company has no commitments and contingent liabilities as at 31 December 2017 (2016: Nil).

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**17. FINANCIAL RISK MANAGEMENT**

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

**Risk management structure**

**Board of Directors**

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

**Audit Committee**

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

**Internal Audit**

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

**Risk Committee**

Board of Directors of the Company has established a risk committee. The primary responsibility of the risk committee is to oversee and approve the company-wide risk management practices to assist the board in overseeing risks, such as financial, credit, market, liquidity, security, legal, regulatory, reputational, and other risks.

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

**17.1 Market risk**

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

Market risk comprises of two types of risk: currency risk and other price risk.

**a) Currency risk**

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

**b) Other price risk**

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

**c) Special commission rate risk**

The special commission rate risk is the risk that the value of the financial instrument may fluctuate due to changes in the market interest rates. As the Company's financial instruments are interest at fixed rates, the Company is not subject to special commission rate risk.

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**17. FINANCIAL RISK MANAGEMENT (Continued)**

**17.2 Credit risk**

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. The Company has established procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral such as down payments and personal guarantees. Individual lease contracts generally are for terms not exceeding sixty-months.

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

	<u>31 December 2017</u>	<u>31 December 2016</u>
Net investment in finance leases	42,345,788	63,744,552
Other receivables	1,086,900	296,393
Bank balances and short term deposit	143,972,147	131,879,718
Advance for investment	892,850	-
Due from a related party	-	2,101,554
	<u>188,297,685</u>	<u>198,022,217</u>

**a) Net investment in finance leases**

The investment in finance leases generally expose to significant credit risk. Therefore, the Company has established a number of procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral and personal guarantees.

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

As at 31 December 2017 age analysis of finance leases - past due but not impaired:

	<u>31 December 2017</u>	<u>31 December 2016</u>
From 1 day to 30 days	536,283	3,373,722
From 31 days to 90 days	-	2,880,223
From 91-180 days	-	9,395,664
From 181-365 days	-	4,424,172
Over 1 year	-	-
Total	<u>536,283</u>	<u>20,073,781</u>

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historical payment behavior and extensive analysis of customer credit risk.

The Company as at 31 December 2017 has an allowance of SR 1.2 million (2016: SR 0.211 million) as specific allowance against past dues and general allowance. In addition, finance lease receivables are secured against leased assets.

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

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**17. FINANCIAL RISK MANAGEMENT (Continued)**

**17.2 Credit risk (Continued)**

**b) Geographical segment analysis**

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

**c) Collateral held as security and other credit enhancements**

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

**d) Bank balances and other receivables**

Funds are placed with banks having good credit ratings and therefore are not subject to significant credit risk. Other receivables are neither significant nor exposed to significant credit risk.

**e) Concentration risk**

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

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

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

**17.3 Liquidity risk**

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

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

	Within 3 months SR	3 to 12 Months SR	1 to 5 years SR	No fixed maturity SR	Total SR
<b>31 December 2017</b>					
<b>Liabilities</b>					
Accrued expenses and other liabilities	180,200	474,022	-	-	654,222
Due to related parties	43,070	-	-	-	43,070
	<u>223,270</u>	<u>474,022</u>	<u>-</u>	<u>-</u>	<u>697,292</u>

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**17. FINANCIAL RISK MANAGEMENT (Continued)**

**17.3 Liquidity risk (Continued)**

31 December 2016	Within 3 months SR	3 to 12 Months SR	1 to 5 years SR	No fixed maturity SR	Total SR
<u>Liabilities</u>					
Accrued expenses and other liabilities	98,000	167,893	-	-	265,893
	<u>98,000</u>	<u>167,893</u>	<u>-</u>	<u>-</u>	<u>265,893</u>

**17.4 Capital risk management**

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

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2017.

**17.5 Fair values of financial assets and financial liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The Company's financial assets consist of cash and cash equivalents, short-term deposits, finance lease receivables, due from a related party, available-for-sale investments and its financial liabilities consist of accrued expenses and other liabilities and, due to a related party.

The fair values of financial assets and liabilities are not materially different from their carrying values at the reporting date.

The Company uses the following hierarchy for determining and disclosing the fair value of financial assets:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the financial statements as at 31 December 2017.

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**17. FINANCIAL RISK MANAGEMENT (Continued)**

**17.5 Fair values of financial assets and financial liabilities (continued)**

	Carrying Amount			Total
	Loans and receivables	Held at fair value through profit or loss	Other financial assets and liabilities at amortized cost	
<b>December 31, 2017</b>				
<b>Financial assets</b>				
<i>Measured at amortised cost</i>				
Finance lease receivable	42,345,788	-	-	42,345,788
Other current assets	1,086,900	-	-	1,086,900
Cash and bank balances	143,972,147	-	-	143,972,147
Advance for investment	892,850	-	-	892,850
<b>Total financial assets</b>	<b>188,297,685</b>			<b>188,297,685</b>
<b>Financial liabilities</b>				
<i>Measured at amortised cost</i>				
Accrued expenses and other liabilities	-	-	654,222	654,222
Due to a related party	-	-	43,070	43,070
	-	-	697,292	697,292
<b>31 December 2016</b>				
<b>Financial assets and liabilities</b>				
<i>Financial assets</i>				
<i>Measured at amortised cost</i>				
Finance lease receivable	63,774,552	-	-	63,774,552
Other current assets	296,393	-	-	296,393
Cash and bank balances	131,894,718	-	-	131,894,718
<b>Total financial assets</b>	<b>195,965,663</b>			<b>195,965,663</b>
<i>Financial liabilities</i>				
<i>Measured at amortised cost</i>				
Accrued expenses and other liabilities	-	-	265,893	265,893
Due to a related party	-	-	-	-
	-	-	265,893	265,893

Fair value information for financial assets and financial liabilities is not presented as there are no financial asset and financial liability measured at fair value.

**18. COMPARATIVE FIGURES**

In 2016, the Company changed its legal status from limited liability company to closed joint stock company (refer note-1) and obtained new commercial registration certificate on 19 Dhu Al Hijja 1437 corresponding to 21 September 2016, therefore, the comparative information presented in these financial statements is from the period from 30 August 2016 to 31 December 2016 and is not comparable.

**19. BOARD OF DIRECTORS' APPROVAL**

These financial statements were approved by the Board of Directors on 13 Jamada Al-Akhirah 1439H corresponding to 1 March 2018.