

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
AND INDEPENDENT AUDITOR'S REPORT

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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Independent auditor's report to the shareholders of Raya Financing Company

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Raya Financing Company (the "Company") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the code of professional conduct and ethics, 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.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Independent auditor's report to the shareholders of Raya Financing Company (continued)

Auditor's 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 auditor's 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 the 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 judgment 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, we are required to draw attention in our auditor's 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 auditor's 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 those charged with governance 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.

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

PricewaterhouseCoopers

Omar M. Al Sagga
License Number 369

18 February 2020

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

		As at 31 December 2019	As at 31 December 2018 (Restated)	As at 1 January 2018 (Restated)
	Note			
Assets				
Non-current assets				
Right-of-use assets	6	4,068,668	-	-
Property and equipment	7	567,899	567,185	477,719
Intangible assets	8	6,930,874	8,273,272	7,351,151
Net investment in finance leases non-current portion	4,9	216,696,617	171,323,509	94,656,697
Net investment in murabaha finance - non-current portion	10	9,163,477	-	-
Financial asset at fair value through other comprehensive income	11	892,850	892,850	-
		238,320,385	181,056,816	102,485,567
Current assets				
Net investment in finance leases - current portion	4,9	91,529,572	47,139,108	18,664,343
Net investment in murabaha finance - current portion	10	12,086,314	-	-
Prepayments and other receivables	12	14,713,934	9,226,814	4,771,739
Cash and cash equivalents	13	54,670,331	8,077,298	22,267,032
		173,000,151	64,443,220	45,703,114
Total assets		411,320,536	245,500,036	148,188,681
Liabilities and equity				
Liabilities				
Non-current liabilities				
Long-term borrowings	14	103,810,362	35,137,647	-
Lease liabilities - non-current portion	6	3,485,893	-	-
Loan from a shareholder - non-current portion	23	52,000,000	-	-
Employee benefit obligations	15	2,685,221	1,818,128	1,387,471
		161,981,476	36,955,775	1,387,471
Current liabilities				
Current maturity of long-term borrowings	14	47,657,378	14,891,087	-
Accounts payable	16	62,755,317	121,145,429	73,858,595
Accrued and other liabilities	17	10,650,511	6,842,424	2,378,398
Lease liabilities - current portion	6	690,276	-	-
Loan from a shareholder - current portion	23	13,206,298	-	-
Zakat payable	18	-	-	1,551,018
		134,959,780	142,878,940	77,788,011
Total liabilities		296,941,256	179,834,715	79,175,482
Equity				
Share capital	19	150,000,000	100,000,000	100,000,000
Accumulated losses	4	(35,620,720)	(34,334,679)	(30,986,801)
Total equity		114,379,280	65,665,321	69,013,199
Total liabilities and equity		411,320,536	245,500,036	148,188,681
Commitments				
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The accompanying notes are an integral part of these financial statements.

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

	Note	For the year ended 31 December	
		2019	2018
			(Restated)
Income			
Revenues	4,20	48,204,817	29,125,622
Expenses			
Provision for impairment of financial assets	9,10	(2,271,565)	(1,237,679)
Insurance and other cost of financed vehicles		(12,561,987)	(8,734,327)
Salaries and employee related expenses		(20,138,268)	(14,077,805)
Rent		-	(1,408,286)
Depreciation and amortization	6,7,8	(2,264,989)	(1,064,586)
Other expenses	21	(3,385,108)	(3,344,054)
Finance charges	22	(8,821,287)	(2,463,996)
Loss before zakat		(1,238,387)	(3,205,111)
Zakat	18	218,129	-
Loss for the year		(1,020,258)	(3,205,111)
Other comprehensive income			
<i>Item that will not to be reclassified to profit or loss-</i>			
Re-measurements of employee benefit obligations	15	(265,783)	(142,767)
Total comprehensive loss for the year		(1,286,041)	(3,347,878)

The accompanying notes are an integral part of these financial statements.

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

	Note	Share capital	Accumulated losses	Total
Balance at 31 December 2018 - as previously reported		100,000,000	(38,502,357)	61,497,643
Restatement	4	-	4,167,678	4,167,678
Balance at 31 December 2018 - as restated		100,000,000	(34,334,679)	65,665,321
Loss for the year		-	(1,020,258)	(1,020,258)
Other comprehensive loss for the year		-	(265,783)	(265,783)
Total comprehensive loss for the year		-	(1,286,041)	(1,286,041)
Increase in share capital through conversion of balance payable to a shareholder	1	50,000,000	-	50,000,000
Balance at 31 December 2019		150,000,000	(35,620,720)	114,379,280
Balance at 1 January 2018 - as previously reported		100,000,000	(32,768,079)	67,231,921
Restatement	4	-	1,781,278	1,781,278
Balance at 1 January 2018 - as restated		100,000,000	(30,986,801)	69,013,199
Loss for the year, as restated	4	-	(3,205,111)	(3,205,111)
Other comprehensive loss for the year, as restated		-	(142,767)	(142,767)
Total comprehensive loss for the year, as restated	4	-	(3,347,878)	(3,347,878)
Balance at 31 December 2018, as restated		100,000,000	(34,334,679)	65,665,321

The accompanying notes are an integral part of these financial statements.

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December	
		2019	2018
			(Restated)
Cash flows from operating activities			
Loss before zakat	4	(1,238,387)	(3,205,111)
<u>Adjustments for</u>			
Impairment of receivables	9,10	2,271,565	1,237,679
Depreciation	6,7	922,591	252,641
Amortisation	8	1,342,398	811,945
Finance charges	22	8,821,287	2,463,996
Gain on disposal of property and equipment		-	(21,104)
Employee benefit obligations		601,310	382,935
<u>Changes in working capital</u>			
Net investment in finance leases and murabaha finance	4	(113,284,928)	(106,379,256)
Prepayments and other receivables		(5,268,991)	(5,347,925)
Accounts payable		56,609,888	47,191,789
Accrued and other liabilities		3,808,087	4,464,026
Net cash used in operating activities		(45,415,180)	(58,148,385)
Cash flows from investing activities			
Proceeds from disposal of property and equipment		-	28,571
Payments for purchase of property and equipment	7	(218,565)	(349,574)
Payments for purchase of intangible assets		-	(1,734,066)
Net cash used in investing activities		(218,565)	(2,055,069)
Cash flows from financing activities			
Zakat paid	18	-	(1,551,018)
Proceeds from long-term borrowings	14	129,858,249	60,000,000
Repayment of long-term borrowings	14	(28,822,057)	(10,425,687)
Interest paid on long-term borrowings	14	(5,102,033)	(2,009,575)
Finance charges paid to a shareholder		(2,868,166)	-
Finance lease liabilities paid	6	(839,215)	-
Net cash generated from financing activities		92,226,778	46,013,720
Net change in cash and cash equivalents		46,593,033	(14,189,734)
Cash and cash equivalents at beginning of year		8,077,298	22,267,032
Cash and cash equivalents at end of year	13	54,670,331	8,077,298
Supplemental cash flow information			
Non-cash operating and investing activities:			
Employee benefit obligations transferred to related parties	23.1	-	95,045
Transfer of advance for investment to financial asset at fair value through other comprehensive income		-	892,850
Non-cash financing activities:			
Increase in share capital through conversion of balance payable to a shareholder	1	50,000,000	-
Transfer from payable to a shareholder to loan from a shareholder	23.4	65,000,000	-

The accompanying notes are an integral part of these financial statements.

RAYA FINANCING COMPANY**(A Saudi Closed Joint Stock Company)****Notes to the financial statements for the year ended 31 December 2019**

(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 Agency (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 March 2016). The registered address of the Company is P.O. Box 6812, Dammam 31452, Kingdom of Saudi Arabia.

During 2019, the Company received no objection certificate from SAMA to conduct murabaha finance business in the Kingdom of Saudi Arabia.

The accompanying financial statements include the operations of the Company and its following branches:

Location	CR No.
Jeddah	4030296155
Jeddah	4030296160
Riyadh	1010610746
Riyadh	1010614411
Dammam	2050115423

During 2019, the shareholders of the Company resolved to increase the Company's share capital through conversion of a balance payable to Al Majdouie Motors Company (a shareholder) of Saudi Riyals 50,000,000, by increasing the number of issued shares held by Al Majdouie Motors Company. Legal formalities for the increase in share capital were completed in 2019.

2 Basis of preparation**2.1 Compliance with IFRS**

The financial statements of the Company for the year ended 31 December 2019 have been prepared by the management in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants (SOCPA).

The financial statements of the Company as at and for the year ended 31 December 2018, were prepared in compliance with IFRS 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 the 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.

On 18 July 2019, SAMA instructed the finance companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by SOCPA (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Company changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 3.15).

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Notes to the financial statements for the year ended 31 December 2019
(All amounts in Saudi Riyals unless otherwise stated)

2.2 Historical cost convention

These financial statements have been prepared under the historical cost convention except as otherwise disclosed in the accounting policies below.

2.3 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 16 Leases effective 1 January 2019.

The impact of the adoption of the new leasing standard is disclosed below and the new accounting policies are disclosed in Note 3.14 below.

IFRS 16 - 'Leases' ("IFRS 16")

The Company has adopted IFRS 16 retrospectively using the modified approach from 1 January 2019, but has not restated comparatives for 2018 reporting period, as permitted under the specific transitional provisions in the standard. The lease liabilities, right-of-use assets and the adjustments arising from the new leasing rules are therefore recognized in the opening statement of financial position on 1 January 2019.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019. The Company's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.83%.

i) Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made under the previously applicable accounting standards.

RAYA FINANCING COMPANY
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Notes to the financial statements for the year ended 31 December 2019
(All amounts in Saudi Riyals unless otherwise stated)

2 Basis of preparation (continued)

- ii) Reconciliation of operating lease commitments disclosed as at 31 December 2018 and lease liability recognized as at 1 January 2019:

	Saudi Riyals
Operating lease commitments disclosed as at 31 December 2018	852,500
Add: adjustments as a result of a different treatment of extension options	5,129,066
Discounted using the Company's incremental borrowing rate of at the date of initial application	<u>(1,208,158)</u>
Lease liability recognized as at 1 January 2019	<u>4,773,408</u>
Of which are:	
Current lease liabilities	597,238
Non-current lease liabilities	<u>4,176,170</u>
	<u>4,773,408</u>

- iii) Right-of-use assets

The recognized right-of-use assets relate to properties. The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

- iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- right-of-use assets – increase by Saudi Riyals 4.8 million
- lease liabilities – increase by Saudi Riyals 4.8 million

The other standards, as mentioned below, did not have any impact on the Company's accounting policies and did not require retrospective adjustments.

- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

2.4 Standards, interpretations and amendments to published standards that will be effective for the periods commencing after 1 January 2020 and have not been early adopted by the Company

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

RAYA FINANCING COMPANY
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Notes to the financial statements for the year ended 31 December 2019
(All amounts in Saudi Riyals unless otherwise stated)

3 Summary of significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below.

3.1 Foreign currency translations

(a) Functional and presentation currency

These financial statements are presented in Saudi Riyals ("SR") which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

3.2 Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits and short-term highly liquid investments, with original maturities up to three months, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

3.3 Net investment in finance leases and murabaha finance

Finance leases

Leases in which the Company transfers substantially all the risk and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. Finance leases are recorded at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments ("PVMLP") and subsequently measured at amortised cost using the effective commission rate.

Gross investment in finance leases include the total of future lease payments on finance leases including residual amount receivable ("Lease rentals"). Security deposits with right to offset against lease rentals are deducted from gross investments in finance lease. The difference between lease rentals and the cost of the leased asset including transaction costs is recorded as unearned finance income.

For presentation purposes, the unearned finance income and impairment provision for lease losses are deducted from the gross investment in finance leases.

Murabaha finance

Murabaha is an islamic form of financing wherein, the Company based on request from its customers, purchases specific commodities and sells them to the customers at a price equals to the Company's cost plus profit, payable on deferred basis in installments.

3.4 Repossessed assets held for sale

The Company, in the ordinary course of its business, acquires certain vehicles against settlement of related net investment in finance leases. Such assets are considered as assets held for sale are initially recorded at the net realizable value of repossessed assets.

Subsequent to the initial recognition, these assets are carried at the lower of their carrying values or the related net realizable value. Changes in net realisable value and gains or losses on disposal are charged or credited to the statement of comprehensive income.

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3 Summary of significant accounting policies (continued)

3.5 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment, if any. Depreciation is charged to the statement of comprehensive income, using the straight-line method, to allocate their cost, net of their residual values, if any, over their estimated useful lives. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

3.6 Intangible assets

Intangible assets having definite lives are stated at cost less accumulated amortisation and accumulated impairment, if any, except for intangible assets under development which are carried at cost. Amortisation is charged to the statement of comprehensive income, using the straight-line method, to allocate the cost over the estimated useful lives not exceeding seven years. The useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Gains and losses on disposals, if any, are taken to the statement of comprehensive income in the period in which they arise.

3.7 Financial instruments

3.7.1 Financial assets

(i) Classification

The Company's financial assets are classified and measured under the following categories:

- Fair value through other comprehensive income (FVTOCI); and
- Amortised cost.

These classifications are on the basis of business model of the Company for managing the financial assets, and contractual cash flow characteristics.

The Company measures financial asset at amortised cost when it is within the business model to hold assets in order to collect contractual cash flows, and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For assets measured at fair value through other comprehensive income, gains and losses will be recorded in other comprehensive income.

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(All amounts in Saudi Riyals unless otherwise stated)

3 Summary of significant accounting policies (continued)

3.7.1 Financial assets (continued)

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(iii) 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

Subsequent measurement of financial assets is as follows:

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured 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 profit or loss.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(iv) Impairment

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.

For net investment in finance leases and murabaha finance, 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.

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(All amounts in Saudi Riyals unless otherwise stated)

3 Summary of significant accounting policies (continued)

3.7.1 Financial assets (continued)

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 (e.g. days past due, customer credit scoring etc.), 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.

While cash and cash equivalents and other receivables are also subject to impairment requirements of IFRS 9, these are considered as low risk and the impairment loss is not expected to be material.

Financial assets are written-off only when:

- (i) the 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 receivable due. Where recoveries are made, after write-off, are recognized as other income in the statement of comprehensive income.

3.7.2 Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortised cost using the effective interest rate method.

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

3.7.3 Offsetting

Financial assets and liabilities are offset and net amounts are reported in the financial statements, when the Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

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3 Summary of significant accounting policies (continued)

3.8 Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognised for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately in the statement of comprehensive income.

3.9 Accounts payable and accruals

Liabilities are obligations to pay for goods and services received, whether or not billed to the Company. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.10 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 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 statement of comprehensive income 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.

3.11 Employee benefit obligations

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

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds or high-quality corporate bonds.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and is recognised in the statement of comprehensive income.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the statement of financial position.

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3 Summary of significant accounting policies (continued)

3.11 Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in the statement of comprehensive income as past service costs.

The calculation of defined benefit obligations is performed periodically using the projected unit credit method.

3.12 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

3.13 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Finance lease and murabaha finance income is recognised using the effective yield method.

Commission income on lease of motor vehicles is recognised when the lease contracts are executed, as per the agreed terms with the respective supplier.

3.14 Leases

3.14.1 Accounting policy applied from 1 January 2019

At the inception of the contract the Company assesses whether a contract is or contains a lease. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liabilities

The lease liability is initially measured at the net present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the Company as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, if the Company does not have recent third-party financing, and
- makes adjustments specific to the lease, for example term, currency and security.

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3 Summary of significant accounting policies (continued)

3.14 Leases (continued)

Lease liabilities include the net present value of the following lease payments:

- fixed lease payments, less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

The Company re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets (ROU)

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses, if any.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 "Provisions, contingent liabilities and contingent assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of the lease term or the economic useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 "Impairment of Assets" to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

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3 Summary of significant accounting policies (continued)

3.14 Leases (continued)

3.14.2 Following lease accounting policy was applied until 31 December 2018

Rental expenses under operating leases are charged to the statement of comprehensive income over the period of the respective lease.

3.15 Zakat and taxes

As mentioned above under Note 2.1, the basis of preparation has been changed for the year ended 31 December 2019, based on latest instructions from SAMA dated 18 July 2019. Previously, zakat was charged in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. As per SAMA instructions dated 18 July 2019, the zakat shall be charged to profit and loss. As there was no zakat charge during 2018 for the Company, this change in accounting policy does not have any effect on the statement of financial position as of 31 December 2018, the statement of comprehensive income, changes in equity and cash flows for year ended 31 December 2018.

In accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"), the Company is subject to zakat. Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian income Tax law.

4 Restatement

The Company's accounting policy, under the requirements of IFRS, requires the Company to recognise the insurance income under the lease contracts, forming part of the minimum lease payments, over the lease term using the effective interest rate method. However, such insurance income was not being accurately calculated until 31 December 2018 in accordance with the Company's accounting policy. Accordingly, management has decided to restate the comparative amounts to record the correct amounts based on the detailed calculations in the accompanying financial statements as follows:

Statement of financial position as of 1 January 2018:

	As previously stated	Effect of restatement	As restated
Net investment in finance leases - non-current portion	91,221,469	3,435,228	94,656,697
Net investment in finance leases - current portion	20,318,293	(1,653,950)	18,664,343
Accumulated losses	(32,768,079)	1,781,278	(30,986,801)

Statement of financial position as of 31 December 2018:

	As previously stated	Effect of restatement	As restated
Net investment in finance leases - non-current portion	166,135,018	5,188,491	171,323,509
Net investment in finance leases - current portion	48,159,921	(1,020,813)	47,139,108
Accumulated losses	(38,502,357)	4,167,678	(34,334,679)

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4 Restatement (continued)

Statement of comprehensive income for the year ended 31 December 2018:

	As previously stated	Effect of restatement	As restated
Revenue	26,739,222	2,386,400	29,125,622
Loss before zakat	(5,591,511)	2,386,400	(3,205,111)
Loss for the year	(5,591,511)	2,386,400	(3,205,111)
Total comprehensive loss for the year	(5,734,278)	2,386,400	(3,347,878)

Statement of changes in equity:

	As previously stated	Effect of restatement	As restated
As of 1 January 2018:			
Accumulated losses	(32,768,079)	1,781,278	(30,986,801)

For the year ended 31 December 2018:

Loss for the year	(5,591,511)	2,386,400	(3,205,111)
Total comprehensive loss for the year	(5,734,278)	2,386,400	(3,347,878)

As of 31 December 2018:

Accumulated losses	(38,502,357)	4,167,678	(34,334,679)
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Statement of cash flows for the year ended 31 December 2018:

	As previously stated	Effect of restatement	As restated
Loss before zakat	(5,591,511)	2,386,400	(3,205,111)
Net investment in finance leases	(103,992,856)	(2,386,400)	(106,379,256)

5 Critical accounting estimates and assumptions

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. There are no critical estimates that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve month period.

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6 Leases

i) Amounts recognised in the statement of financial position

	2019	1 January 2019
Right-of-use assets		
Office premises and delivery yards	<u>4,068,668</u>	4,773,408
Lease liabilities		
Current	690,276	597,238
Non-current	<u>3,485,893</u>	4,176,170
	<u>4,176,169</u>	4,773,408

There no additions to the right-of-use assets during 2019.

ii) Amounts recognised in profit and loss

	2019	2018
Depreciation charge of right-of-use assets		
Office premises and delivery yards	<u>704,740</u>	-
Interest expense (included in finance charges) (Note 22)	<u>241,976</u>	-

The total cash outflow for leases in 2019 was Saudi Riyals 0.8 million.

iii) Additional information about the Group's leasing activities

The Company has leases in respect of various offices and delivery yards. Rental contracts are typically made for fixed periods of 1 to 3 years but may have extension options as described below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in a number of property leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension options held are exercisable only by mutual agreement of the Company and the respective lessor.

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7 Property and equipment

	1 January 2019	Additions	Disposal	31 December 2019
<u>2019</u>				
Cost				
Vehicles	46,485	-	-	46,485
Furniture, fixtures and office equipment	1,311,449	218,565	(6,921)	1,523,093
	<u>1,357,934</u>	<u>218,565</u>	<u>(6,921)</u>	<u>1,569,578</u>
Accumulated depreciation				
Vehicles	(24,211)	(11,621)	-	(35,832)
Furniture, fixtures and office equipment	(766,538)	(206,230)	6,921	(965,847)
	<u>(790,749)</u>	<u>(217,851)</u>	<u>6,921</u>	<u>(1,001,679)</u>
	<u>567,185</u>			<u>567,899</u>
	1 January 2018	Additions	Disposal	31 December 2018
<u>2018</u>				
Cost				
Vehicles	155,020	-	(108,535)	46,485
Furniture, fixtures and office equipment	961,875	349,574	-	1,311,449
	<u>1,116,895</u>	<u>349,574</u>	<u>(108,535)</u>	<u>1,357,934</u>
Accumulated depreciation				
Vehicles	(113,658)	(11,621)	101,068	(24,211)
Furniture, fixtures and office equipment	(525,518)	(241,020)	-	(766,538)
	<u>(639,176)</u>	<u>(252,641)</u>	<u>101,068</u>	<u>(790,749)</u>
	<u>477,719</u>			<u>567,185</u>

Useful lives of property and equipment are as follows:

	Number of years
• Vehicles	4
• Furniture, fixtures and office equipment	3 - 5

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8 Intangible assets

Intangible comprise of software and license. The movement in intangible assets is as follows:

	2019	2018
Cost		
At beginning of year	10,015,785	5,211,182
Additions / transfers	-	4,804,603
At end of year	10,015,785	10,015,785
Accumulated amortization		
At beginning of year	(1,742,513)	(930,568)
Charge for the year	(1,342,398)	(811,945)
At end of year	(3,084,911)	(1,742,513)
Net book value		
31 December	6,930,874	8,273,272

9 Net investment in finance leases

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

	2019	2018
Gross investment in finance leases	410,638,282	305,518,198
Unearned finance income	(96,025,787)	(82,871,759)
Present value of minimum lease payments receivable	314,612,495	222,646,439
Provision for impairment of lease receivables	(6,386,306)	(4,183,822)
Net investment in finance leases	308,226,189	218,462,617
Investment in finance leases - non-current portion	(216,696,617)	(171,323,509)
Investment in finance leases - current portion	91,529,572	47,139,108

9.2 Maturity profile of gross investment in finance leases and present value of minimum lease payments receivables is as follows:

	2019	2018
Gross investment in finance leases		
Within one year	138,584,906	81,445,956
From one to three years	195,699,241	149,776,420
Three to five years	76,354,135	74,295,822
	410,638,282	305,518,198
Present value of minimum lease payments receivable		
Within one year	94,478,568	48,498,868
From one to three years	153,404,051	110,283,820
Three to five years	66,729,876	63,863,751
	314,612,495	222,646,439

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9 Net investment in finance leases (continued)

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

	2019	2018
Opening balance	4,183,822	2,946,143
Charge for the year	2,202,484	1,237,679
Closing balance	6,386,306	4,183,822

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

	Performing	Under-performing	Non-performing	Total
Opening balance as at 1 January 2019	1,018,033	310,943	2,854,846	4,183,822
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(114,163)	157,567	(371,468)	(328,064)
Individual financial assets transferred to non -performing (credit-impaired financial assets)	(37,637)	(62,478)	2,651,882	2,551,767
Individual financial assets transferred to performing (12-month expected credit losses)	42,780	(127,440)	(478,667)	(563,327)
New financial assets originated or purchased	571,003	211,845	737,693	1,520,541
Recoveries	(351,941)	(64,247)	(639,263)	(1,055,451)
Other changes	-	-	77,018	77,018
Closing balance as at 31 December 2019	1,128,075	426,190	4,832,041	6,386,306

The Company currently generates substantially all of its revenues from leasing of motor vehicles in the Kingdom of Saudi Arabia. Finance leases receivables of the Company are related to corporate and retail customers. The credit risk on net investment in finance leases is mitigated by the retention of legal title documents of the leased assets. The expected credit losses are recognized considering the historical probability of default and loss given default, which are adjusted for the potential impact of forward looking macro-economic factors, if any. The estimated value of collaterals (i.e. leased vehicles) held against non-performing lease receivables at 31 December 2019, amounted to Saudi Riyals 14.2 million.

9.5 Category-wise gross lease receivables are as follows:

	2019	2018
Performing	323,435,129	252,627,783
Under-performing	65,110,538	39,270,753
Non-performing	22,092,615	13,619,662
	410,638,282	305,518,198

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9 Net investment in finance leases (continued)

9.6 Category-wise lease receivables (net of impairment provision) are as follows:

	2019	2018
Performing	322,307,054	251,609,750
Under-performing	64,684,348	38,959,810
Non-performing	17,260,574	10,764,816
	<u>404,251,976</u>	<u>301,334,376</u>

10 Net investment in murabaha finance

Reconciliation between gross and net murabaha finance is as follows:

	2019	2018
Gross investment in murabaha finance	24,757,803	-
Unearned murabaha finance income	(3,438,931)	-
	<u>21,318,872</u>	-
Provision for impairment	(69,081)	-
Net investment in murabaha finance	<u>21,249,791</u>	-
Investment in murabaha finance - non-current portion	(9,163,477)	-
Investment in murabaha finance - current portion	<u>12,086,314</u>	-

During 2019, the Company started Murabaha finance after obtaining license from SAMA. As at 31 December 2019, the outstanding balances are considered performing. The provision on the outstanding balance was recognised based on expected credit loss.

11 Financial asset at fair value through other comprehensive income

The Company holds 89,285 shares in Saudi Finance Leasing Contracts Registry Company, a Saudi joint stock company (the "investee Company") registered in the Kingdom of Saudi Arabia Saudi for lease contracts registration, which represents 2% of total share capital of the investee Company. The investee Company is currently in development stage and has not yet started its operations. The management believes that the carrying value of the investment approximates to the fair value at 31 December 2019 and 2018.

12 Prepayments and other receivable

	Note	2019	2018
Prepayments		5,007,054	3,682,415
Advances to a related party	23	1,927,238	-
Insurance claims		2,846,709	1,420,569
Advances to suppliers		2,176,697	-
Repossession assets held for resale		618,922	651,154
Zakat refundable	18	218,129	-
Margin against letter of guarantee		-	3,000,000
Other		1,919,185	472,676
		<u>14,713,934</u>	<u>9,226,814</u>

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13 Cash and cash equivalents

	2019	2018
Cash in hand	54,420	5,000
Cash at bank	54,615,911	8,072,298
	54,670,331	8,077,298

14 Long-term borrowings

	2019	2018
Murabaha facilities	112,773,584	49,574,313
Government bank loan	37,860,532	-
Accrued finance cost	833,624	454,421
	151,467,740	50,028,734
Long-term borrowings are presented as follows:		
Current maturity shown under current liabilities	47,657,378	14,891,087
Long-term borrowings	103,810,362	35,137,647
	151,467,740	50,028,734

The movement in long-term borrowings is as follows:

	2019	2018
At 1 January	50,028,734	-
Proceeds from long-term borrowings	129,858,249	60,000,000
Finance charges for the year	5,504,847	2,463,996
Less: repayment of principal	(28,822,057)	(10,425,687)
Less: repayment of finance charges	(5,102,033)	(2,009,575)
At 31 December	151,467,740	50,028,734

14.1 Murabaha facilities

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. The Company had drawn Saudi Riyals 60 million during the year ended 31 December 2018 and remaining balance of Saudi Riyals 40.0 million was utilized during 2019. The loan is secured against corporate guarantee from certain related parties, collateral on receivables against certain leased vehicles covering at least 125% of the outstanding borrowing and 70% of loan instalments due within a year through minimum lease payments due on such receivables in the same period. The loan 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. The repayment of such loans as per the respective repayment schedule is up to 2023.

Further during 2019, the Company entered into a new agreement with another local commercial bank to provide Murabaha financing facility of Saudi Riyals 200 million to meet the working capital requirements of the Company, out of which Saudi Riyals 150.0 million was unutilized as at 31 December 2019. The loan is secured against corporate guarantee from certain related parties, collateral on receivables against certain leased vehicles covering at least 150% of the outstanding borrowing. The loan agreement contains covenant regarding maintenance of leverage ratio and the Company has complied with this covenant throughout the reporting period. The loan 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. The repayment of such loans as per the respective repayment schedule is up to 2024.

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14 Long-term borrowings (continued)

14.2 Government bank loan

During 2019, the Company entered into an agreement with a government bank to provide financing facility of Saudi Riyals 40.0 million to meet the working capital requirements of the Company, which was fully utilised during 2019. Administrative fee is charged by government bank under the loan agreement.

The covenants of the borrowing facility restricts the Company to utilise the loan amount for the purpose specified in the loan agreement. The carrying value of such long-term borrowings is denominated in Saudi Riyals. The repayment of such loans as per the repayment schedule is up to 2023.

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

	2019	2018
Less than 6 months	25,627,245	8,290,175
6 - 12 months	26,848,905	8,290,175
Between 1 and 2 years	52,240,705	16,580,349
Between 2 and 5 years	57,332,668	20,725,437
	162,049,523	53,886,136

15 Employee benefit obligations

15.1 Employee benefit obligations - Defined benefit plan

The Company operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Employees' end-of-service benefit plan is unfunded plan and the benefit payment obligation are met when they fall due upon termination of employment.

	2019	2018
At January 1	1,818,128	1,387,471
Current service cost	527,843	393,498
Interest cost	85,524	49,443
Benefits paid	(12,057)	(60,006)
Remeasurements	265,783	142,767
Transfers (Note 23)	-	(95,045)
At December 31	2,685,221	1,818,128

15.2 Amounts recognised in the statement of comprehensive income

The amounts recognised in the statement of comprehensive income related to employee benefit obligations are as follows:

	2019	2018
Current service cost	527,843	393,498
Interest expense	85,524	49,443
Total amount recognised in profit or loss	613,367	442,941
<u>Remeasurements</u>		
Experience losses	265,783	142,767
Total amount recognised in other comprehensive income	265,783	142,767

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15 Employee benefit obligations (continued)

15.3 Significant actuarial assumptions

	2019	2018
Discount rate	2.8%	4.3%
Salary growth rate	2.8%	4.3%
Retirement age	60 years	60 years

15.4 Sensitivity analysis for actuarial assumptions

	Change in assumption		Impact on employee benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
2019				
Discount rate	50 basis points	50 basis points	(97,002)	103,374
Salary growth rate	50 basis points	50 basis points	102,857	(97,462)
2018				
Discount rate	50 basis points	50 basis points	(65,173)	69,435
Salary growth rate	50 basis points	50 basis points	69,093	(65,477)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

15.5 Expected maturity analysis

The weighted average duration of the defined benefit obligation is 7.4 years (2018: 7.4 years). The expected maturity analysis of undiscounted employee benefit obligations is as follows:

	2019	2018
Less than a year	251,287	182,582
Between 1 - 2 years	284,359	213,902
Between 2 - 5 years	969,961	752,277
Over 5 years	3,542,175	2,668,575
	5,047,782	3,817,336

16 Accounts payable

	Note	2019	2018
Trade		6,433,443	20,331,736
Related parties	23	56,321,874	100,813,693
		62,755,317	121,145,429

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17 Accrued and other liabilities

	2019	2018
Advance from customers	6,724,785	4,061,785
Accrued expenses	3,445,403	1,760,370
VAT payable	480,323	1,020,269
	10,650,511	6,842,424

18 Zakat matters

18.1 The principal elements of the approximate zakat base are as follows:

	2019
Equity at beginning of year	65,665,321
Non-current liabilities and borrowings	161,981,476
Total Financing Resources	227,646,797
 Total assets	 411,102,407
Zakat Assets	54,670,331
Zakat Assets / Total Assets	13%
Approximate zakat base	30,273,541

18.2 Provision for zakat

	2019	2018
At beginning of year	-	1,551,018
Provision for the year	780,149	-
Reversal for prior years	(998,278)	-
	(218,129)	-
 Paid during the year	 -	 (1,551,018)
At end of year	(218,129)	-

18.3 Status of final assessments

The Company has filed its zakat declarations with the General Authority of Zakat and Tax (GAZT) upto 2018.

During the year ended 31 December 2019, the Company has received a settlement notice from the GAZT relating to the treatment of non-current portion of net investment in its finance lease for the purposes of determination of zakat base. The notice prescribes the method to calculate the Company's zakat liability for the year ended 31 December 2018 and states that applying the same principles, the Company is entitled to a credit of Saudi Riyals 1.18 million for the years from 2016, when the Company was provided a license from SAMA to be involved in the finance lease activities, and 2017, whereas there would be a charge of Saudi Riyals 0.18 million for the year ended 31 December 2018. Management has agreed to the settlement notice and has accordingly recorded a net zakat refundable of Saudi Riyals 1.0 million.

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19 Share capital

At 31 December 2019 the share capital consisting of 15 million (2018: 10 million) shares of Saudi Riyals 10 each was held as follows:

Name	County of incorporation	Shareholding 2019	2018
Al Majdouie Motors Company Limited	Saudi Arabia	46.68%	20%
Al Majdouie Food Company Limited	Saudi Arabia	13.33%	20%
Majd Real Estate Development Company Limited	Saudi Arabia	13.33%	20%
Al Majdouie Logistics Company Limited	Saudi Arabia	13.33%	20%
Al Majdouie Education and Training Company Limited	Saudi Arabia	13.33%	20%
Total		100%	100%

During 2019, the shareholders of the Company resolved to increase the Company's share capital through conversion of a balance payable to Al Majdouie Motors Company. Also see Note 1

The Company is a subsidiary of Al Majdouie Holding Company Limited, which is a Saudi limited liability company registered in the Kingdom of Saudi Arabia and is ultimately controlled by Sheikh Ali Ibrahim Saleh Al Majdouie.

20 Revenues

	Note	2019	2018
Income from finance leases		45,678,511	26,639,770
Income from murabaha finance		582,844	-
Commission income	23	1,943,462	2,485,852
		48,204,817	29,125,622

21 Other expenses

	Note	2019	2018
Software license and support		576,104	1,083,187
Board of Directors fees	23	118,000	206,826
Advertising and marketing		258,364	591,295
Bank charges		496,743	309,058
Other		1,935,897	1,153,688
		3,385,108	3,344,054

22 Finance charges

	Note	2019	2018
Finance cost on long-term borrowings	14	5,504,847	2,463,996
Finance charges from a related party	23	3,074,464	-
Interest charge on leases	6	241,976	-
		8,821,287	2,463,996

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23 Related party transactions and balances

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

Nature of transaction	Relationship	2019	2018
Purchases	Shareholder	90,512,773	83,747,441
Purchases	Affiliate	1,125,000	5,284,200
Finance charges	Shareholder	3,074,464	-
Commission income on lease of motor vehicles	Shareholder	1,794,616	-
Employee benefit obligations transferred from the Company	Shareholder	-	95,045
Rent charged to the Company	Shareholder		293,996
Lease payments	Shareholder	445,214	-
Key management personnel			
Key management compensation		2,790,725	2,370,785
Employee benefit obligations		178,383	195,090
Board of Directors fees		118,000	206,826

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

	2019	2018
Al Majdouie Motors Company Limited ("Motors")- shareholder	55,876,672	94,348,042
Al Majdouie Holding Company Limited - ultimate parent company	389,532	644,750
Arjaa Travel and Tourism Company	44,270	114,508
Majd Real Estate Development Company Limited - shareholder	11,400	29,067
Al Majdouie Food Company Limited – shareholder	-	1,854
Sheikh Ali Ibrahim Saleh Al Majdouie	-	391,272
Al Majdouie Manufacturing Company	-	5,284,200
	56,321,874	100,813,693

During the year ended 31 December 2019, the Company and Motors entered into an arrangement with effect from 1 January 2019, whereby the balance payable to Motors outstanding for more than 30 days from the date of the respective underlying invoice, shall bear financial charges at prevailing market rates. Also see Note 1.

23.3 Advances to a related party

Advances to a related party at 31 December 2019, represent advances given to Al Majdouie Manufacturing Company.

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23 Related party transactions and balances (continued)

23.4 Loan from a shareholder

	2019	2018
Motors	65,000,000	-
Accrued finance cost	206,298	-
	<u>65,206,298</u>	-
Loans from a shareholder is presented as follows:		
Loan from a shareholder - current portion	13,206,298	-
Loan from a shareholder - non-current portion	52,000,000	-
	<u>65,206,298</u>	-

The movement in loan from a shareholder is as follows:

	2019	2018
Transfer from balance payable to Motors	65,000,000	-
Finance charges for the year	206,298	-
At 31 December	<u>65,206,298</u>	-

During the year ended 31 December 2019, the Company and Motors entered into an arrangement with effect from 1 December 2019, whereby the balance due to Motors of Saudi Riyals 65 million will be converted into loan repayable in 60 monthly installments. The loan 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. The repayment of such loans as per the respective repayment schedule is up to 2024.

The contractual maturities of loan from a shareholder are as follows:

	2019	2018
Less than 6 months	7,802,311	-
6 - 12 months	7,580,197	-
Between 1 and 2 years	14,777,597	-
Between 2 and 5 years	41,321,993	-
	<u>71,482,098</u>	-

24 Commitments

The Company has operating leases principally related to its offices and delivery yards which are renewed annually. Rental expense for the year ended 31 December 2018 was Saudi Riyals 1.4 million.

From 1 January 2019, the group has recognised right-of-use assets for these leases, see Note 2.3 and Note 6 for further information.

The operating lease commitments for the Company's office premises are as follows:

	2019	2018
Less than one year	-	602,500
More than a year and less than five years	-	250,000
Total	<u>-</u>	<u>852,500</u>

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25 Fair values of financial assets and financial liabilities

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

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

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs that are unobservable. This is the case for unlisted equity securities.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

All financial assets and financial liabilities of the Company are categorized as held at amortised cost except for financial assets at fair value through other comprehensive income. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values. The breakdown of these financial assets and liabilities is as follows:

	Note	2019	2018
Financial assets			
<i>FVTOCI - Level 3</i>			
Financial asset at fair value through other comprehensive income	11	892,850	892,850
<i>At amortised cost</i>			
Net investment in finance leases	9	308,226,189	218,462,617
Net investment in murabaha finance	10	21,249,791	-
Cash and cash equivalents	13	54,670,331	8,077,298
Other receivables		2,909,228	4,657,443
		387,948,389	232,090,208
Financial liabilities			
<i>At amortised cost</i>			
Lease liabilities	6	4,176,169	-
Long-term borrowings	14	151,467,740	50,028,734
Accounts payable	16	62,755,317	121,145,429
Loan from a shareholder	23	65,206,298	-
Accrued and other liabilities		10,650,511	1,425,315
		294,256,035	172,599,478
Net financial assets		93,692,354	59,490,730

26 Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and commission rate risk), credit risk and liquidity risk. The Company's overall risk management program, which is carried out by senior management, focuses on having cost effective funding as well as managing financial risks to minimize earning volatility and provide maximum return to shareholders. The risks faced by the Company and their respective mitigating strategies are summarized below.

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26 Financial instruments and risk management (continued)

26.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause a financial loss to the Company. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

The management analyses credit risk into the following categories:

Net investment in finance leases and murabaha finance

Investment in finance lease and murabaha finance receivables is generally exposed to significant credit risk. Therefore, the Company has established procedures to manage credit exposure including evaluation of customers' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral and personal guarantees whenever considered necessary. The Company also follows a credit classification mechanism as a tool to manage the quality of credit risk of the lease and murabaha portfolio and grades the individual customers based on both subjectivity and payment history taking into consideration factors such as customer credit standing, financial strength, security and quality of management.

The Company monitors customers' grading on a regular basis. The management believes that adequate provision has been accounted for, where required to address the credit risk. Further details related to net investment in finance leases and murabaha finance and related risk are presented in Note 3.7, Note 9 and Note 10 to these financial statements.

Cash and cash equivalents and other receivables

These are placed with banks having good credit ratings, and therefore are not subject to significant credit risk. Other receivables are not exposed to significant credit risk.

26.2 Commission rate risk

Commission rate risk is the uncertainty of future earnings and expenses resulting from fluctuations in commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to commission rate adjustment within a specified period. The most important source of such risk is the Company's leasing activities and borrowings from commercial and government banks. As at the statement of financial position date, the Company has commission bearing financial assets of Saudi Riyals 329.5 million. However, the commission rates have been agreed with the respective customers. Further, the Company also had variable commission bearing financial liabilities of Saudi Riyals 216.7 million (31 December 2018: Saudi Riyals 50.0 million), and had the commission rate varied by 1% with all the other variables held constant, total comprehensive loss for the year would have been approximately Saudi Riyals 1.1 million (31 December 2018: Saudi Riyals 0.5 million) lower / higher, as a result of lower / higher finance cost on floating rate borrowings.

26.3 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's financial assets and liabilities are not exposed to fair value and cash flow interest rate risks.

26.4 Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company's financial instruments are not exposed to price risk.

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26 Financial instruments and risk management (continued)

26.5 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company has no significant exposure to currency risk as it mainly deals in Saudi Riyals which is also the functional currency of the Company.

26.6 Liquidity risk

Liquidity risk reflects the Company's inability in raising funds to meet financial commitments. As at the 31 December 2019, the Company's contractual maturities of financial liabilities up to one year are of Saudi Riyals 133.6 million (2018: Saudi Riyals 139.2 million). The Company manages liquidity risk through availability of financing through borrowing from commercial banks. As at date of statement of financial position, the contractual maturities of the Company's financial assets and financial liabilities are as follows:

	Up to one year	One to three years	More than three years	Total
Financial assets - commission bearing:				
Gross investment in finance leases	138,584,906	195,699,241	76,354,135	410,638,282
Gross investment in murabaha finance	14,132,940	10,199,596	425,267	24,757,803
	152,717,846	205,898,837	76,779,402	435,396,085
Financial assets - non commission bearing:				
Cash and cash equivalents	54,670,331	-	-	54,670,331
Other receivables	2,909,228	-	-	2,909,228
2019	210,297,405	205,898,837	76,779,402	492,975,644
2018	94,180,697	149,776,420	74,295,822	318,252,939
Financial liabilities - commission bearing:				
Loan from a shareholder	15,382,507	29,053,204	27,046,387	71,482,098
Lease liabilities	839,214	1,278,428	3,024,711	5,142,353
Long-term borrowings	52,476,150	88,932,979	20,640,394	162,049,523
	68,697,871	119,264,611	50,711,492	238,673,974
Financial liabilities - non commission bearing:				
Accounts payable	62,755,317	-	-	62,755,317
Accrued and other liabilities	2,097,481	-	-	2,097,481
2019	133,550,669	119,264,611	50,711,492	303,526,772
2018	139,151,094	33,160,699	4,145,087	176,456,880
Net financial assets (liabilities)				
Commission bearing	84,019,975	86,634,226	26,067,910	196,722,111
Non commission bearing	(7,273,239)	-	-	(7,273,239)
2019	76,746,736	86,634,226	26,067,910	189,448,872
2018	(44,970,397)	116,615,721	70,150,735	141,796,059

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26 Financial instruments and risk management (continued)

26.6 Liquidity risk (continued)

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters. In addition, the Company has access to credit facilities.

Cash flow forecasting is performed by the management which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance and compliance with internal ratio targets.

27 Capital risk management

The Company's objective when managing capital is to safeguard Company's ability to continue as a going concern in order to provide returns for the shareholders and benefits to other stakeholders and to maintain optimal capital structure to reduce the cost of capital. Borrowings represent long-term borrowings from commercial bank. The management analyses the gearing ratio as follows:

	2019	2018
Equity	114,379,280	65,665,321
Borrowings	220,850,207	50,028,734
Total	335,229,487	115,694,055
Gearing ratio (borrowing as a percentage of total)	65.88%	43.24%

The debt to equity ratio increased from 76.2% to 83.5% following the adoption of IFRS 16 Leases. Both net debt and gross assets increased following the recognition of right-of-use assets and lease liabilities on 1 January 2019. See note 2.3 for further information.

28 Date of authorization of issue

The accompanying financial statements were authorized for issue by the Board of Directors on 18 February 2020.