

**UNITED ELECTRONICS COMPANY AND ITS SUBSIDIARIES**  
**(A SAUDI JOINT STOCK COMPANY)**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2017**  
**WITH INDEPENDENT AUDITOR'S REPORT**

**UNITED ELECTRONICS COMPANY AND ITS SUBSIDIARIES**  
**(A SAUDI JOINT STOCK COMPANY)**

**FOR THREE MONTH AND SIX MONTH PERIODS ENDING 30, JUNE 2017**

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**REPORT ON REVIEW OF INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS**

The Shareholders  
United Electronics Company  
(A Saudi Joint Stock Company)  
Al-Khobar, Kingdom of Saudi Arabia

**Introduction**

We have reviewed the accompanying Condensed Consolidated interim statement of financial position of **United Electronics Company** (the “Company”) and its Subsidiaries (collectively referred to as the “Group”) as of June 30, 2017, the Condensed Consolidated interim statement of income and other comprehensive income for the three and six month periods then ended and the Condensed Consolidated interim statement of changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standards No. 34 “Interim Financial Reporting” as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement endorsed by Saudi Organization of Certified Public Accountants. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

**Scope of Review**

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

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standards No. 34.

PKF Al-Bassam & Al Nemer  
Allied Accountants

  
Ibrahim A. Al Bassam  
License No. 337

Al Khobar, July 25, 2017  
2 Dhul Qadah 1438H



**UNITED ELECTRONICS COMPANY AND ITS SUBSIDIARIES**  
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**  
**AS AT JUNE 30, 2017**

		June 30, 2017 (Unaudited) SR	December 31, 2016 (Note 2.1) SR	January 1, 2016 (Note 2.1) SR
	Note			
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property and equipment		436,313,598	435,060,580	455,806,488
Intangible assets		32,464,711	30,218,776	24,682,689
Deferred tax assets		597,223	837,390	-
Trade and other receivables	5	10,335,621	11,710,869	8,220,581
Installment sales receivable – non current portion	6	25,468,292	18,464,809	6,952,247
		<u>505,179,445</u>	<u>496,292,424</u>	<u>495,662,005</u>
<b>Current assets</b>				
Inventories		679,941,168	544,045,471	651,792,118
Trade and other receivables	5	54,754,659	43,079,237	68,168,712
Installment sales receivable - current portion	6	94,407,562	62,571,082	18,111,592
Cash and cash equivalents	7	137,487,788	100,197,958	66,222,180
		<u>966,591,177</u>	<u>749,893,748</u>	<u>804,294,602</u>
<b>TOTAL ASSETS</b>		<u><b>1,471,770,622</b></u>	<u><b>1,246,186,172</b></u>	<u><b>1,299,956,607</b></u>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Share capital	1	420,000,000	360,000,000	360,000,000
Statutory reserve	8	16,725,117	66,088,888	66,088,888
Retained earnings		76,369,560	101,886,228	104,252,379
Foreign currency translation reserve		(84,242)	(104,641)	(65,938)
		<u>513,010,435</u>	<u>527,870,475</u>	<u>530,275,329</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Medium term loan - Murabaha finance – non current portion		-	-	10,000,000
Deferred revenue from extended warranty program– non current portion		58,209,142	15,134,051	8,936,124
Deferred revenue from sale and leaseback – non current portion	9	2,049,073	2,117,371	2,253,967
Operating lease liability – non-current portion		13,639,486	13,388,581	12,808,170
Deferred tax liabilities		-	-	32,158
End of service benefits		54,891,091	51,824,772	45,916,000
		<u>128,788,792</u>	<u>82,464,775</u>	<u>79,946,419</u>
<b>Current liabilities</b>				
Trade and other payables		783,005,001	621,418,681	653,586,948
Deferred revenue from extended warranty program – current portion		43,137,145	9,685,452	12,022,839
Deferred revenue from sale and leaseback – current portion	9	136,596	136,596	136,596
Operating lease liability– current portion		1,913,878	1,002,191	610,583
Medium term loan – Murabaha finance – current portion		-	-	20,000,000
Zakat provision		1,778,775	3,608,002	3,377,893
<b>Total current liabilities</b>		<u><b>829,971,395</b></u>	<u><b>635,850,922</b></u>	<u><b>689,734,859</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>1,471,770,622</b></u>	<u><b>1,246,186,172</b></u>	<u><b>1,299,956,607</b></u>

Chief Financial Officer

Chief Executive Officer

Chairman

The accompanying notes 1 through 17 form an integral part of these condensed consolidated interim financial statement

**UNITED ELECTRONICS COMPANY AND ITS SUBSIDIARIES**  
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME AND OTHER  
COMPREHENSIVE INCOME  
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2017**

	Note	For three month period ended		For six month period ended	
		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
		(Unaudited) SR	(Note 2.1) SR	(Unaudited) SR	(Note 2.1) SR
Revenue, net	10	1,013,905,244	881,268,064	1,818,576,250	1,624,178,185
Cost of revenue	10	(841,074,052)	(735,941,794)	(1,511,363,590)	(1,381,339,615)
<b>Gross profit</b>		<b>172,831,192</b>	<b>145,326,270</b>	<b>307,212,660</b>	<b>242,838,570</b>
Selling, marketing and distribution expenses		(104,446,658)	(104,951,609)	(200,636,531)	(217,407,546)
Administrative expenses		(23,873,546)	(28,216,061)	(48,049,539)	(57,984,628)
Other expenses		(1,105,769)	(794,397)	(1,300,512)	(1,060,548)
Other income		553,741	-	719,324	111,137
Finance cost		(145,528)	(608,232)	(252,567)	(1,007,804)
<b>Net profit (loss) before zakat</b>		<b>43,813,432</b>	<b>10,755,971</b>	<b>57,692,835</b>	<b>(34,510,819)</b>
Zakat		(204,021)	(389,975)	(1,090,377)	(1,008,134)
Deferred tax (expense) / income		(240,167)	657,269	(240,167)	657,269
<b>Net profit (loss) for the period</b>		<b>43,369,244</b>	<b>11,023,265</b>	<b>56,362,291</b>	<b>(34,861,684)</b>
<b>OTHER COMPREHENSIVE INCOME</b>					
<i>Item that may be reclassified subsequently to statement of income:</i>					
Exchange differences on translation of foreign operation		8,835	237,369	20,399	271,826
<b>Total comprehensive income (loss) for the period</b>		<b>43,378,079</b>	<b>11,260,634</b>	<b>56,382,690</b>	<b>(34,589,858)</b>
<b>Net income (loss) for the period attributable to:</b>					
Shareholders of the Company		43,369,244	11,023,265	56,362,291	(34,861,684)
<b>Total comprehensive income (loss) for the period attributable to :</b>					
Shareholders of the Company		43,378,079	11,260,634	56,382,690	(34,589,858)
<b>Income (Loss) per share</b>					
Basic and diluted income (loss) per share (Saudi Riyal per share)	12	1.03	0.26	1.34	(0.83)

Chief Financial Officer

Chief Executive Officer

Chairman

The accompanying notes 1 through 17 form an integral part of these condensed consolidated interim financial statements.

**UNITED ELECTRONICS COMPANY AND ITS SUBSIDIARIES**  
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2017**

	Share Capital SR	Statutory reserve SR	Retained earnings SR	Foreign currency translation reserve SR	Equity attributable to shareholders of the Company SR	Non-controlling interest SR	Total SR
Balance as at January 1, 2016 - As per SOCPA	360,000,000	66,088,888	105,596,980	(65,938)	531,619,930	1,995	531,621,925
Other adjustments	-	-	1,995	-	1,995	(1,995)	-
Impact of adoption of International Financial Reporting Standards (IFRS)- Note 2.1	-	-	(1,346,596)	-	(1,346,596)	-	(1,346,596)
Balance as at January 1, 2016 – As per IFRS	360,000,000	66,088,888	104,252,379	(65,938)	530,275,329	-	530,275,329
Net loss for the period	-	-	(34,861,684)	-	(34,861,684)	-	(34,861,684)
Other comprehensive income	-	-	-	271,826	271,826	-	271,826
Balance at June 30, 2016 – Unaudited	<u>360,000,000</u>	<u>66,088,888</u>	<u>69,390,695</u>	<u>205,888</u>	<u>495,685,471</u>	<u>-</u>	<u>495,685,471</u>
Balance as at January 1, 2017 - As per SOCPA	360,000,000	66,299,054	106,048,475	(104,641)	532,242,888	-	532,242,888
Impact of adoption of International Financial Reporting Standards (IFRS)	-	(210,166)	(4,162,247)	-	(4,372,413)	-	(4,372,413)
Balance as at January 1, 2017 – As per IFRS	360,000,000	66,088,888	101,886,228	(104,641)	527,870,475	-	527,870,475
Impact of early adoption of IFRS 15	-	-	(71,242,730)	-	(71,242,730)	-	(71,242,730)
	<u>360,000,000</u>	<u>66,088,888</u>	<u>30,643,498</u>	<u>(104,641)</u>	<u>456,627,745</u>	<u>-</u>	<u>456,627,745</u>
Net income for the period	-	-	56,362,291	-	56,362,291	-	56,362,291
Transfer to statutory reserve	-	5,636,229	(5,636,229)	-	-	-	-
Other comprehensive income	-	-	-	20,399	20,399	-	20,399
Share capital increased	60,000,000	(55,000,000)	(5,000,000)	-	-	-	-
Balance as at June 30, 2017 – Unaudited	<u>420,000,000</u>	<u>16,725,117</u>	<u>76,369,560</u>	<u>(84,242)</u>	<u>513,010,435</u>	<u>-</u>	<u>513,010,435</u>

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Chief Financial Officer

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Chief Executive Officer

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Chairman

The accompanying notes 1 through 17 form an integral of these condensed consolidated interim financial statements.

**UNITED ELECTRONICS COMPANY AND ITS SUBSIDIARIES**  
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2017**

	June 30, 2017 (Unaudited)	June 30, 2016 (Note 2.1)
	SR	SR
<b>Cash flows from operating activities:</b>		
Net profit / (loss) for the period	56,362,291	(34,861,684)
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation of property and equipment	20,031,717	18,853,112
Amortization of intangible assets	1,900,513	1,885,068
Loss from disposal of fixed assets	64,056	25,082
Deferred revenue on sale and leaseback	(68,298)	(68,298)
Deferred revenue from additional services program	5,284,054	(80,626)
Finance cost	252,567	1,007,804
Impairment recognized on installment sales receivable, net	3,033,261	1,559,199
Impairment recognized on trade and other receivables, net	12,770	(90,218)
Provision for inventories	4,244,781	413,715
Zakat expense	1,090,377	1,008,134
End of service benefits	6,696,209	4,566,829
Operating lease liability	1,162,592	1,849,236
Deferred tax	240,167	(657,269)
	<u>100,307,057</u>	<u>(4,589,916)</u>
<b>Movements in working capital</b>		
Trade and other receivables	(10,444,238)	2,740,468
Installment sales receivables	(41,873,224)	(31,682,294)
Inventories	(140,140,478)	116,592,706
Trade and other payables	161,717,614	15,851,072
<b>Cash used in operations</b>	<u>69,566,731</u>	<u>98,912,036</u>
End of service indemnity paid	(3,629,890)	(2,074,883)
Finance cost paid	(252,567)	(1,007,804)
Zakat paid	(2,919,604)	(3,276,807)
<b>Net cash generated from operating activities</b>	<u>62,764,670</u>	<u>92,552,542</u>
<b>Cash flows from investing activities</b>		
Additions to property and equipment	(21,996,803)	(24,554,773)
Additions to intangible assets	(3,514,086)	(8,481,237)
Proceeds from disposal of property and equipment	15,650	635,350
<b>Net cash used in investing activities</b>	<u>(25,495,239)</u>	<u>(32,400,660)</u>
<b>Cash flows from financing activities:</b>		
Drawdown of Murabaha loan	50,000,000	175,000,000
Repayment of Murabaha loan	(50,000,000)	(205,000,000)
<b>Net cash used in financing activities</b>	<u>-</u>	<u>(30,000,000)</u>
<b>Net change in cash and cash equivalents</b>	<u>37,269,431</u>	<u>30,151,882</u>
Movement in foreign exchange translation	20,399	271,826
Cash and cash equivalents at the beginning of the period	<u>100,197,958</u>	<u>66,222,180</u>
<b>Cash and cash equivalents at end of the period</b>	<u>137,487,788</u>	<u>96,645,888</u>
<b>Non-cash transaction :</b>		
Impact of early adoption of IFRS 15 on Deferred revenue from extended warranty program	<u>(71,242,730)</u>	<u>-</u>

Chief Financial Officer

Chief Executive Officer

Chairman

The accompanying notes 1 through 17 form an integral part of these condensed consolidated interim financial statements.

**UNITED ELECTRONICS COMPANY AND ITS SUBSIDIARIES**  
**(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2017**

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**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

United Electronics Company (the "Company") is a Saudi joint stock Company initially registered in Riyadh under commercial registration number 1010175357 dated 19 Moharram 1423H (corresponding to April 1, 2002). In 2004, the Company's registered office was transferred from Riyadh to Al Khobar and, accordingly, the commercial Registration number was changed to 2051029841 dated 10 Jumada II, 1425H (corresponding to July 27, 2004). The shares of the company were listed on the Saudi Stock Exchange "Tadawul" on December 24, 2011.

The Board of Directors in their meeting held on February 20, 2017 proposed to increase the share capital by SR 60 ` by transferring of SR 55 million and SR 5 million from statutory reserve and retained earnings respectively. On March 23, 2017 the Company obtained the approval from the Capital Market Authority (CMA) to increase its share capital by way of by transferring SR 55 million and SR 5 million from statutory reserve and retained earnings respectively. The shareholders approved capital increase of SR 60 million in the Extraordinary General Assembly held on May 14, 2017 whereby the bylaws of the Company were amended to reflect the increase in the share capital from SR 360 million to SR 420 million.

The address of the Company's head office is as follows:

- United Electronics Company – P.O. Box 76688 Al Khobar 31952, Kingdom of Saudi Arabia.

The Company's principal activities are the wholesale and retail trade in foodstuff, electric appliances, electronic gadgets, computers and their spare parts and accessories, furniture, office equipment and tools, car recorder installations, maintenance and repair services, establishment of restaurants and third-party marketing.

**1.1 Structure of the group**

The condensed consolidated financial statements include the financial statements of the company and following subsidiaries:

<b><u>Name of consolidated subsidiaries</u></b>	<b><u>Effective ownership</u></b>
1- United Electronics Company Extra S.P.C., a Co. registered in Bahrain	100%
2- United Electronics Company Extra L.L.C., a Co. registered in Oman	100%
3- United Company for Maintenance Services, a Co. registered in Kingdom of Saudi Arabia	100%

The three wholly owned subsidiaries of the Company, for which the assets, liabilities and result of operations of these subsidiaries have been included in the accompanying condensed consolidated interim financial statements.

- 1- United Electronics Company-Extra S.P.C., is registered in Bahrain on 15 Dhul-Qa'da 1432H (corresponding to October 13, 2011). The principal activities of this subsidiary are importing, exporting and trading of electrical and electronics devices and their spare parts, computers and accessories, selling video and audio media materials, importing and exporting computer software and hardware, importing and exporting electronic games, providing maintenance for electric devices in addition to management and development of personal properties.
- 2- United Electronics Company-Extra L.L.C., is registered in Oman on 15 Jumada I 1433H (corresponding to April 7, 2012), the principal activities of this subsidiary is retail trading of computer, non-customized softwares, household appliances (radio, television, refrigerators, crockery etc.), toys, games, satellites and phones.
- 3- United Computers Maintenance and Electronics Company Limited, is Saudi limited liability company incorporated on 10 Rajab 1431H (corresponding to September 22, 2010). The principal activities of this subsidiary are maintenance and repair and providing warranty for electronics, digital and electrical devices, home appliances and computers and wholesale trading of spare parts in electrical and digital devices, photocopy and fax machines, telephones, cell phones, video and electric games, digital pocket assistants, printers and computer related devices.

The Company and its subsidiaries are together referred as "the Group"



**UNITED ELECTRONICS COMPANY AND ITS SUBSIDIARIES**  
**(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2017**

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**1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)**

**1.1 Structure of the group (Continued)**

- 4- As at June 30, 2017, The Group had a total of 42 branches (June 30, 2016: 42 branches) out of which 39 operational branches are in the Kingdom of Saudi Arabia ( December 31, 2016: 39 branches)

These condensed consolidated interim financial statements are presented in Saudi Riyals, which is the Group's functional and presentation currency. Figures have been rounded off to the nearest Riyal.

**2. IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND APPLICATION OF NEW AND REVISED IFRS**

**2.1 First time adoption of IFRS**

The Group has applied the International Financial Reporting Standard (IFRS) effective January 1, 2017.

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") and the requirements of International Accounting Standard 34 Interim Financial Reporting.

These condensed consolidated interim financial statements, for the three month and six month periods ended June 30, 2017 are prepared in accordance with IFRS. For periods up to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Accordingly, the Group has prepared condensed consolidated interim financial statements that comply with IFRS applicable as at June 30, 2017, together with the comparative consolidated statement of financial position as at December 31, 2016. In preparing the condensed consolidated interim financial statements, the Group's opening consolidated statement of financial position was prepared as at January 1, 2016 which is the Group's date of transition to IFRS in addition to December 31, 2016. Notes 2.1.1 and 2.1.2 detail the adjustments made by the Group in restating its SOCPA condensed consolidated interim financial statements, including the consolidated statement of financial position as at January 1, 2016 and the condensed consolidated interim statement of income for the period ended June 30, 2016 and the financial statements as at December 31, 2016. Those adjustments were also disclosed in the condensed consolidated interim financial statements for the three month period ended March 31, 2017.

**UNITED ELECTRONICS COMPANY AND ITS SUBSIDIARIES**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2017**

**2.1.1 Effect of IFRS adoption on the statement of financial position**

	Note	December 31, 2016			January 1, 2016		
		As per					
		SOCPA SR	Transition effect SR	IFRS SR	SOCPA SR	Transition effect SR	IFRS SR
<b>ASSETS</b>							
<b>Non-current assets</b>							
Property and equipment	a,c	456,616,831	(21,556,251)	435,060,580	470,424,868	(14,618,380)	455,806,488
Intangible assets	c	5,011,645	25,207,131	30,218,776	7,344,369	17,338,320	24,682,689
Deferred tax assets		837,390	-	837,390	-	-	-
Trade and other receivables	i,j	-	11,710,869	11,710,869	-	8,220,581	8,220,581
Installment sales receivable – non current portion		18,464,809	-	18,464,809	6,952,247	-	6,952,247
		<u>480,930,675</u>	<u>15,361,749</u>	<u>496,292,424</u>	<u>484,721,484</u>	<u>10,940,521</u>	<u>495,662,005</u>
<b>Current assets</b>							
Inventories		544,045,471	-	544,045,471	651,792,118	-	651,792,118
Trade and other receivables	i,j	3,266,199	39,813,038	43,079,237	13,654,035	54,514,677	68,168,712
Installment sales receivable – current portion		62,571,082	-	62,571,082	18,111,592	-	18,111,592
Prepayment and other current assets – current portion	j	59,985,708	(59,985,708)	-	68,934,738	(68,934,738)	-
Cash and cash equivalents		100,197,958	-	100,197,958	66,222,180	-	66,222,180
		<u>770,066,418</u>	<u>(20,172,670)</u>	<u>749,893,748</u>	<u>818,714,663</u>	<u>(14,420,061)</u>	<u>804,294,602</u>
<b>TOTAL ASSETS</b>		<u>1,250,997,093</u>	<u>(4,810,921)</u>	<u>1,246,186,172</u>	<u>1,303,436,147</u>	<u>(3,479,540)</u>	<u>1,299,956,607</u>
<b>EQUITY AND LIABILITIES</b>							
<b>EQUITY</b>							
Share capital		360,000,000	-	360,000,000	360,000,000	-	360,000,000
Statutory reserve		66,299,054	(210,166)	66,088,888	66,088,888	-	66,088,888
Retained earnings	a,b,d,e,g	106,048,475	(4,162,247)	101,886,228	105,596,980	(1,344,601)	104,252,379
Foreign currency translation reserve		(104,641)	-	(104,641)	(65,938)	-	(65,938)
Equity attributable to shareholders of the company		<u>532,242,888</u>	<u>(4,372,413)</u>	<u>527,870,475</u>	<u>531,619,930</u>	<u>(1,344,601)</u>	<u>530,275,329</u>
Non-Controlling interest		-	-	-	1,995	(1,995)	-
		<u>532,242,888</u>	<u>(4,372,413)</u>	<u>527,870,475</u>	<u>531,621,925</u>	<u>(1,346,596)</u>	<u>530,275,329</u>

**UNITED ELECTRONICS COMPANY AND ITS SUBSIDIARIES**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2017**

**2.1.1 Effect of IFRS adoption on the statement of financial position (Continued)**

	Note	December 31, 2016			January 1, 2016		
		SOCPA SR	As per Transition effect SR	IFRS SR	SOCPA SR	As per Transition effect SR	IFRS SR
<b>LIABILITIES</b>							
<b>Non-current liabilities</b>							
Medium term loan-Murabaha finance – non current portion		-	-	-	10,000,000	-	10,000,000
Deferred revenue from extended warranty program– non current portion	<b>d</b>	15,134,051	-	15,134,051	8,936,124	-	8,936,124
Deferred revenue from sale and leaseback – non current portion		14,904,128	(12,786,757)	2,117,371	15,865,676	(13,611,709)	2,253,967
Operating lease liability – Long-term portion		-	13,388,581	13,388,581	-	12,808,170	12,808,170
Deferred tax liabilities		-	-	-	32,158	-	32,158
End of service benefits	<b>b</b>	53,609,570	(1,784,798)	51,824,772	48,471,036	(2,555,036)	45,916,000
		<u>83,647,749</u>	<u>(1,182,974)</u>	<u>82,464,775</u>	<u>83,304,994</u>	<u>(3,358,575)</u>	<u>79,946,419</u>
<b>Current liabilities</b>							
Trade and other payables	<b>f,g</b>	488,692,903	132,725,778	621,418,681	558,569,785	95,017,163	653,586,948
Accrued expenses and other liabilities	<b>f</b>	132,158,551	(132,158,551)	-	93,577,163	(93,577,163)	-
Deferred revenue from additional services program – current portion		9,685,452	-	9,685,452	12,022,839	-	12,022,839
Deferred revenue from sale and leaseback – current portion	<b>d</b>	961,548	(824,952)	136,596	961,548	(824,952)	136,596
Operating lease liability – current portion		-	1,002,191	1,002,191	-	610,583	610,583
Medium term loan-Murabaha finance – current portion		-	-	-	20,000,000	-	20,000,000
Zakat		3,608,002	-	3,608,002	3,377,893	-	3,377,893
<b>Total current liabilities</b>		<u>635,106,456</u>	<u>744,466</u>	<u>635,850,922</u>	<u>688,509,228</u>	<u>1,225,631</u>	<u>689,734,859</u>
<b>Total liabilities</b>		<u>718,754,205</u>	<u>(438,508)</u>	<u>718,315,697</u>	<u>771,814,222</u>	<u>(2,132,944)</u>	<u>769,681,278</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>1,250,997,093</u>	<u>(4,810,921)</u>	<u>1,246,186,172</u>	<u>1,303,436,147</u>	<u>(3,479,540)</u>	<u>1,299,956,607</u>

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**2.1.1 Effect of IFRS adoption on the statement of financial position (Continued)**

Reconciliation of equity	December 31, 2016	January 1, 2016
	SR	SR
Total equity under SOCPA	532,242,888	531,621,925
Impact of straight line recognition of operating lease rentals	(23,419,800)	(19,618,233)
Actuarial value of employees end of service benefits	1,784,798	2,555,036
Impact of recognition of profit on sale and operating leaseback	13,611,709	14,436,661
Impact of residual value of property and equipment	3,650,880	2,719,940
Accrual of directors' remuneration	-	(1,440,000)
Total adjustments to equity	(4,372,413)	(1,346,596)
Total equity under IFRS	527,870,475	530,275,329

**2.1.2 Effect of IFRS adoption on the statement of income and other comprehensive income for the period ended June 30, 2016**

	Net loss before zakat	Net loss for the period
	SR	SR
<b>Net loss reported under SOCPA</b>	(32,340,342)	(32,691,207)
Impact of straight line recognition of operating lease rentals	(1,973,885)	(1,973,885)
Actuarial value of end of service benefits	(210,110)	(210,110)
Impact of recognition of profit on sale and operating leaseback	(412,476)	(412,476)
Impact of residual value of property and equipment	425,994	425,994
<b>Net loss reported under IFRS</b>	(34,510,819)	(34,861,684)
Other comprehensive loss		271,826
<b>Total comprehensive loss for the period under IFRS</b>		(34,589,858)

**2.1.3 Notes to reconciliations**

- IAS 16 Property and equipment requires that items of property and equipment depreciated to a residual value, which is determined based on the estimated useful lives of the property and equipment. The Group previously depreciated items of property and equipment to zero without considering a residual value. The effect of setting a residual value for the remaining assets not yet depreciated to zero, resulted in a decrease in depreciation expense of SR 425,994 for the period ended June 30, 2016 and an increase in equity of SR 2,719,940 as at January 1, 2016. Similarly, for year ended December 31, 2016, the effect is an increase in equity of SR 3,650,880.
- IAS 19 Employee benefits requires that long-term employee benefits be actuarially valued. The Group liability for End of Service Benefits ("EOSB") is therefore required to be actuarially valued. The Group previously determined its liability for EOSB based on the requirements of Local Labor Law. The effect of this change is an increase in the EOSB expense of SR 210,110 for the period ended June 30, 2016 and an increase in equity of SR 2,555,036 as at January 1, 2016. For year ended December 31, 2016, an increase in equity by SR 1,784,798.
- IAS 38 Intangible assets requires that intangible assets be disclosed separately in the notes and on the face of the statement of financial position. The Group previously reported intangible assets under capital work in progress within property and equipment. The effect of this change is an increase in intangible assets of SR 17,338,320 as at January 1, 2016. For year ended December 31, 2016, the balance of intangible assets was SR 30,218,776.

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**2.1.3 Notes to reconciliations (Continued)**

- d) IAS 17 Leases requires that, for a sales and operating leaseback transaction the difference between the fair value and the carrying amount of the asset at the time of transaction be recognized immediately in the statement of income. The excess of the sales proceeds over fair value should be deferred and amortized over the period for which the asset is expected to be used. Previously the difference between sales price and carrying value was deferred over the period of the lease term. The effect of this change is an increase in the lease expense of SR 412,476 for the period ended June 30, 2016 and an increase in equity of SR 14,436,661 as at January 1, 2016.
- e) IAS 17 Leases requires that operating lease payments should be recognized on a straight line basis over the term of the leases, even if the lease payments are not made on that basis. The Group previously recognized operating lease expenses based on payments made. The effect of this change is an increase in the lease expense of SR 1,973,885 for the period ended June 30, 2016 and a decrease in equity of SAR 19,618,233 as at January 1, 2016.
- f) Reclassification of accrued expenses and other liabilities to trade and other payables. This has been done in order to comply with IAS 1 Presentation of Financial Statements.
- g) Accrual of directors' remuneration which was not required under SOCPA as at January 1, 2016.
- h) Employees' loans and advances were previously all presented as part of current assets. As at January 1, 2016, SR 1,624,737 of this amount is due in more than 12 months from the reporting date. This has been reclassified to non-current assets in order to comply with IAS 1.
- i) Reclassification of prepayments and other current assets to trade and other receivables. This has been done in order to comply with IAS 1.
- j) Allocation of long-term portion amounting to SR 6,595,844 of prepayments to non-current assets portion as at January 1, 2016.

**2.2 New and revised IFRS in issue but not yet effective**

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<b>IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014)</b> IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.  A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement.	January 1, 2018

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**2.2 New and revised IFRS in issue but not yet effective (Continued)**

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<b>IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014)</b> (Continued)	January 1, 2018
The standard contains requirements in the following areas:	
<b>Classification and measurement:</b> Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.	
<b>Impairment:</b> The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.	
<b>Hedge accounting:</b> Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.	
<b>Derecognition:</b> The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	
<b>Amendments to IFRS 4 Insurance Contracts:</b> Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	January 1, 2018
<b>Amendments to IAS 40 Investment Property:</b> Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	January 1, 2018
<b>Amendments to IFRS 7 Financial Instruments:</b> Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
<b>IFRS 7 Financial Instruments:</b> Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	
<b>IFRS 15 Revenue from Contracts with Customers</b>	January 1, 2018
In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.	

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**2.2 New and revised IFRS in issue but not yet effective (Continued)**

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<b>IFRS 15 Revenue from Contracts with Customers (Continued)</b>	January 1, 2018

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

**Amendment to standard IFRS 2 – Classification and Measurement of Share-based Payment Transactions**

January 1, 2018

These amendments relate to the following areas: • the accounting for the effects of vesting conditions on cash-settled share-based payment transactions; • the classification of share-based payment transactions with net settlement features for withholding tax obligations; and • the accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled.

The amendments apply prospectively to annual periods beginning on or after January 1, 2018, with specific transitional requirements. The amendments may be applied retrospectively only if it is possible to do so without using hindsight. Early application is permitted. The Group is currently assessing the precise impact of this new standard.

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**2.2 New and revised IFRS in issue but not yet effective (Continued)**

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<b>IFRS 16 Leases</b>	January 1, 2019
IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	
<b>Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011)</b> relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture	January 1, 2018

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Management anticipates that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2018. On January 1, 2017, the group early adopted IFRS 15 – Revenue from contract customer. The application of IFRS 15 under the modified approach resulted in an adjustment to the opening retained earning as at January 1, 2017, the date by which the management has adopted the standard, by SR 71,242,730 on account of changes in revenue recognition on additional service program (extended warranty) and additional disclosure were made with respect of "deferred revenue from additional services program" and revenue recognition policies. IFRS 16 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2019. The application of IFRS 16 may have a significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of its leases. However, it is not practicable at this stage to provide a reasonable estimate of effects of the application of IFRS 9 and IFRS 16 until the Group performs a detailed review. The Group does not expect to adopt such standards before its effective dates.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies applied by the Group:

**3.1 Statement of compliance**

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for certified Public Accountants and the requirements of IAS 34 "Interim Financial Reporting" and IFRS 1 "First-time Adoption of International Financial Reporting Standards" as endorsed in the Kingdom of Saudi Arabia which was applied effective January 1, 2017. The first condensed consolidated interim financial statements according to these standards have been issued for the period ended March 31, 2017.

These condensed consolidated interim financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants. IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied as at June 30, 2017, together with the comparative consolidated statement of financial position as at January 1, 2016 and December 31, 2016. The date of transition to IFRS is January 1, 2016. For periods up to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with accounting standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

The disclosures in this condensed consolidated interim financial statements information do not include the information required to be reported for full annual financial statements. IAS 34 requires in preparing condensed interim financial statements less disclosures in comparison to the annual financial statements and since the Group's last annual financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization of Certified Public Accountants, these condensed consolidated interim financial statements includes additional disclosures to reflect the impact of the transition to IFRS. Comparative condensed consolidated Interim Statements of financial position is extracted from annual restated financial statements as of December 31, 2016 whereas comparative condensed consolidated interim statement of income, comprehensive income, cash flow and changes in equity are extracted from unaudited restated condensed interim financial information of the Group for the period ended June 30, 2016 – (Note 2.1) .



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**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.1 Statement of compliance (Continued)**

The Capital Market Authority (CMA) has decided that the options to use the revaluation model for property, plant, and equipment and intangible assets in IAS 16 and IAS 38 and the option to use the fair value model for investment property in IAS 40 will not be available for the first three years post transition from 2017 to 2019 for listed companies. Upon completion of the aforementioned period, the CMA will study whether to continue to require the cost model or whether to allow the application of the fair value/revaluation models. Under this circumstance the Group can not avail these options for current financial year.

IFRS 1 allows first-time adopters certain exemptions upon transition from the retrospective application of certain requirements under IFRS. IFRS 1 Prohibits retrospective application of IFRS with respect to accounting Estimates", and also for "derecognition of financial assets and liabilities", "Hedge accounting", "Non-controlling interest", "classification and measurement of financial assets", "impairment of financial assets", "embedded derivatives" and "government loans". The Group has applied relevant IFRSs on these transactions prospectively from the transition date.

No optional exemption has been claimed by the Group

**3.2 Basis of preparation**

The condensed consolidated interim financial statements have been prepared on the historical cost convention except for the employees end of service benefit liability which has been actuarially valued.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The condensed consolidated interim financial statements are presented in Saudi Riyals (SR), which is the Group's functional currency, except where otherwise indicated.

**3.3 Basis of consolidation**

**The condensed consolidated interim financial statements incorporate the financial statements of the Company and its subsidiaries detailed in note 1. Control is achieved when the Company:**

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.3 Basis of consolidation (Continued)**

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Condensed consolidated interim statement of Income and each component of other comprehensive income are attributed to the owners of the Company. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**3.3.1 Changes in the Group's ownership interests in existing subsidiaries**

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognized in the consolidated statement of income and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified condensed Consolidated interim statement of income or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

**3.4 Revenue recognition**

Revenue is recognized as control of an asset is passed, either over time or at a point in time. Control of an asset is defined as the ability to direct the use of and substantially all the benefit from an asset.

**3.4.1 Sale of goods**

Revenue is recognized upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which entity expects to be entitled in exchange for those goods or services. Revenue is recognized when the following steps are met:

- i. A sale contract is identified with a customer. Such contract does not have to be written to be considered identified.
- ii. The existence of a performance obligation.
- iii. A transaction price is determined.
- iv. Allocation of the transaction price to the performance obligation.
- v. Recognition of revenue upon satisfaction of performance obligation.

In assessing these steps, management considers the followings:

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.4.1 Sales of goods (Continued)**

- Approval of both parties (buyer and seller) on the sale with each party rights in relation to these goods and services to be transferred under the sale. Payment terms are also considered to ensure the contract has a commercial substance and it is probable that the consideration under the sale of these goods and services will be collected.
- Identification of the distinct goods or service promised under the contract. These distinct goods and service, are referred to as performance obligation. In considering whether these goods and services are distinct, management assess whether these goods or services can provide benefit on its own and the Group's promise to transfer these goods and services to the customer are separately identified. All the Group sales are considered to be distinct.
- The consideration to which the Group expects to be entitled in exchange for transfer of these goods and services. All the Group's sale have fixed consideration.
- Allocation of the transaction price to goods or services under the contract.

Satisfaction of performance obligation.

**3.4.2 Revenue from extended warranty program**

The Group provides extended warranty program to its customers, where the customer has the option to purchase the warranty. Contract is separately priced or negotiated as a distinct service, which considered as identifiable revenue component. The Group accounts for the warranty as a separate performance obligation service on the base of the length of the warranty coverage period and the nature of the tasks that the entity promises to perform. The Group defers the consideration received as a liability, which is later derecognized and revenue is accordingly recognized over the service agreement period.

**3.4.3 Installment sales**

In determining the transaction price, the group adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed with the customer provides the customer or the group with a significant benefit of financing the transferred goods or services to the customer. In those circumstances, which is the case for instalment sales which is normally over more than one year period , the agreement with the customer contains a significant financing component. The Group adjusts the promised amount of consideration for the significant financing component to recognize revenue at an amount that reflects the cash price goods (ie the cash selling price). The Group considers all relevant facts and circumstances in assessing whether a contract contains a financing component and whether that financing component is significant to the contract, which include the following:

- A- the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services; and
- B- the combined effect of both of the following:
  - (i) the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services; and
  - (ii) the prevailing interest rates in the relevant market.

The Group uses the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. That rate used reflects the credit characteristics of the party receiving financing in the contract, as well as any collaterals including goods transferred in the contract to the customer. The Group determines that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the customer would pay in cash for the goods or services when they transfer to the customer. After contract inception, The Group does not update the discount rate for changes in interest rates or other circumstances (ex. changes in the assessment of the customer's credit risk).

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.5 Expenses**

Distribution expenses principally comprise of costs incurred in the distribution and delivery of the Group's products. All other expenses, other than cost of sales, are classified as administrative expenses.

Marketing expenses principally comprise of costs incurred in marketing and advertising the Group's products and services.

Administrative expenses include direct and indirect costs not specifically part of cost of revenue as required under generally accepted accounting principles. Allocations between distribution, marketing and administrative expenses and cost of revenue, when required, are made on a consistent basis.

**3.6 Earnings per share**

The Group presents basic earnings per share data for its profit. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

**3.7 Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group does not have any finance leases.

**3.7.1 The Group as lessor**

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

**3.7.2 The Group as lessee**

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**3.8 Foreign currency translations**

**3.8.1 Presentation currency**

The accompanying condensed consolidated interim financial statements are presented in Saudi Riyals which is the functional currency and presentation currency of the parent company. Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the group entity operates (the functional currency). The group entities primarily operate in Bahrain and Oman.

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**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.8.2 Transaction and balances**

Transactions denominated in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of each reporting period are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences on monetary items are recognized in the condensed consolidated interim statement of income in the period in which they arise except for:

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to condensed consolidated interim statement of income on repayment of the monetary items.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to statement of income. In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in the statement of income. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to statement of income.

**3.8.3 Group entities**

The results and financial position of foreign subsidiaries having reporting currencies other than the presentation currency of the parent company, are translated into functional currency as follows:

- (i) Assets and liabilities for each reporting period presented are translated at the closing exchange rates prevailing at the end of reporting period.
- (ii) Income and expenses from each reporting period are translated at average exchange rates and;
- (iii) Components of the equity accounts are translated at the exchange rates in effect of the dates of the related items originated. Cumulative adjustments resulting from the translations are reported in other comprehensive income and are reported in a separate component of equity as "Currency translation differences".

**3.9 Borrowing cost**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in condensed consolidated interim statement of income in the period in which they are incurred.

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**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.10 Employee benefits**

**3.10.1 Employee defined benefit liabilities**

The end-of-service indemnity provision is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurements, comprising actuarial gains and losses, are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurements recognized in other comprehensive income are reflected immediately in retained earnings and will not be reclassified to condensed consolidated interim statement of income in subsequent periods. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in condensed consolidated interim statement of income as past service costs. Interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- interest expense; and
- remeasurements

The Group presents the first two components of defined benefit costs in condensed consolidated interim statement of income in the line item 'Administration expenses'.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

**3.10.2 Short-term and other long-term employee benefits**

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

**3.11 Zakat and income tax**

**3.11.2 Zakat**

The company is subject to the regulations of the General Authority of Zakat & Tax ("GAZT") in the kingdom of Saudi Arabia. Moreover, the subsidiaries are subject to the relevant laws relating to income tax in the countries where they conduct their activities. Zakat is calculated on accrual basis. Zakat is calculated on the higher of zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

**3.11.3 Current income tax**

The Group applies IAS 12 Income Taxes in accounting for taxes on income. Income tax is applicable to one of the subsidiary only. The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before zakat and income tax' as reported in the consolidated condensed interim statement of income and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.11 Zakat and income tax (Continued)**

**3.11.4 Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with accounting and tax depreciation on property and equipment, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with accumulated tax losses only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**3.12 Segmental reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Chief Executive Officer (CEO) and Board of Directors (BOD) to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the BOD and CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items compose mainly corporate expenses and related assets/liabilities (primarily the Company's headquarters). Head office expenses, research and development costs and related assets/liabilities, some goodwill and intangible assets and income tax assets and liabilities.

Because the management views the whole activates of the company as one operating segment, reporting is provided by geographical segment only.

**3.13 Property and equipment**

Property and equipment are stated at their cost less accumulated depreciation and accumulated impairment losses.

Properties in the course of construction are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.13 Property and equipment**

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property and equipment (except freehold land and building under construction) are depreciated over its useful lives using the straight line method.

The estimated useful lives of assets are as follows:

<u>Item</u>	<u>Estimated useful lives/Years</u>
Building and leasehold improvements	10-33 years
Furniture, fixtures and office equipment	4-10 years
Vehicles	5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in statement of income.

Capital work in progress represents the accumulated costs incurred by the group in relation to the construction of its building and structures in the development stage. Cost incurred are initially charged to the capital work in progress then these costs are transferred to property and equipment when the construction of these facilities are completed. Finance costs on borrowings attributable to the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

**3.14 Intangible assets**

Intangible assests comprise of Enterprise Resource Planning (ERP) and E-Commerce software. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives of 10 and 5 years respectively. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

**3.14.1 Derecognition of intangible assets**

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in condensed consolidated interim statement of income when the asset is derecognized.

**3.15 Impairment of tangible and intangible assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.



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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.15 Impairment of tangible and intangible assets (Continued)**

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in statement of income..

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in statement of income..

**3.16 Inventories**

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average cost basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale and markdown. A provision is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified during the inventory count. Provision for slow moving and obsolete inventories is assessed periodically by management for each inventory category as part of its ongoing financial reporting review.

**3.17 Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**3.18 Financial instruments**

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through statement of income) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value are recognized immediately in statement of income. Financial assets are mainly classified under: 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.19 Effective interest method**

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

**3.20 Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

**3.21 Impairment of financial assets**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in statement of income.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through condensed consolidated interim statement of income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.22 Derecognition of financial assets**

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in statement of income.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in statement of income. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

**3.23 Financial liabilities and equity instruments**

**3.23.1 Classification as debt or equity**

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

**3.23.2 Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in condensed consolidated interim statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

**3.23.3 Financial liabilities**

Financial liabilities (including borrowings and trade and other payables) are initially and subsequently measured at amortized cost using the effective interest method.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in statement of income.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.24 Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held with the bank, all of which have maturities of 90 days or less and are available for use by the Group unless otherwise stated.

**3.25 Sale and leaseback**

Sale and leaseback transactions are recognized independent of the lease transactions.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term.

If the related leaseback is an operating lease, then following accounting policies are followed:

- if the sale price is equal to the fair value, there has, in effect, been a normal sale transaction and any profit or loss on sale is recognized immediately;
- if the sale price is above the fair value:
  - > the difference between fair value and carrying amount is recognized immediately; but
  - > the excess of proceeds over fair value is deferred and amortized over the period for which the asset is expected
- if the sale price is below the fair value, the difference between sale price and carrying amount is recognized immediately except that, if a loss arising is compensated by future rent at below market price, it is deferred and amortized in proportion to the rent payments over the period for which the asset is expected to be used.

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 3, the directors of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is 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.

**Critical judgements in applying accounting policies and Key sources of estimation uncertainty**

The following are the critical judgement and key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**4.1 Impairment of trade and other receivables and installment sales receivable**

An estimate of the collectible amount of accounts receivable and installment sales receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the reporting date gross trade receivables were SR 9.09 million with SR 1.59 million being provided for. Installment sale receivable were SR 133.44 million (gross value) with SR 13.56 million being provided for as an impairment. Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in statement of income.

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**4.2 Impairment of inventories**

Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made of their net realizable value. For individually significant amounts this estimation is performed on an individual basis. Items which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

**4.3 Impairment of property and equipment**

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use. No impairment loss had been recognized as at June 30, 2017.

**4.4 Useful lives and residual values of property and equipment and intangible assets**

The Group's management estimates the useful lives of its property and equipment and intangible assets for the purpose of calculating depreciation and amortization respectively. These estimates are determined after considering the expected usage of the asset or physical wear and tear for useful lives. Residual values are based on experience and observable data where available.

**4.5 Employee end of service benefits**

The Groups makes various estimated in determining the end of service indemnities provision.

**5. TRADE AND OTHER RECEIVABLES**

Trade and other receivables comprise of the following:

	June 30, 2017	December 31, 2016	January, 1 2016
	SR	SR	SR
Trade receivables	9,095,689	5,419,994	15,048,546
Less: impairment for doubtful debts	<u>(1,599,338)</u>	<u>(1,586,568)</u>	<u>(1,394,511)</u>
Net trade receivables	7,496,351	3,833,426	13,654,035
Prepaid rent	37,924,258	30,137,985	31,538,371
Employee receivables	4,978,114	6,461,575	8,356,836
Advances to suppliers	2,835,512	1,470,734	2,657,790
Prepaid insurance	1,899,287	3,564,578	3,453,952
Claim Receivable and refundable deposits	1,752,325	1,838,927	1,788,927
Prepaid government and recruitment charges	2,371,267	3,467,018	7,658,132
Prepaid marketing and license fee	702,053	1,264,979	1,195,376
Other receivables	5,731,355	3,468,389	6,487,374
Less: Provision for doubtful debts	<u>(600,242)</u>	<u>(717,505)</u>	<u>(401,500)</u>
	<u>65,090,280</u>	<u>54,790,106</u>	<u>76,389,293</u>
<b>Less: non-current portion</b>			
Prepaid rent	(8,520,989)	(9,798,711)	(6,595,844)
Employees receivable	<u>(1,814,632)</u>	<u>(1,912,158)</u>	<u>(1,624,737)</u>
<b>Total non-current portion</b>	<u>(10,335,621)</u>	<u>(11,710,869)</u>	<u>(8,220,581)</u>
<b>Total current portion, net</b>	<u>54,754,659</u>	<u>43,079,237</u>	<u>68,168,712</u>

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**5. TRADE AND OTHER RECEIVABLES (Continued)**

The average credit period on sales of goods is 30 days. No interest is charged on trade receivables. The Group has recognized an allowance for impairment doubtful debts of 100% against all receivables that are over 180 days past due date because historical experience has been that receivables that are past due beyond 180 days are not recoverable. Before accepting any new customer, the Group has a credit facility policy set in place to assess the potential customer's credit quality and defines credit limits by customer. These procedures, are reviewed and updated on an ongoing basis. As of June 30, 2017, two of the company's major customers comprise 81% of the net trade receivables balance (December 2016: four of major customers comprise 88% of the net trade receivables balance). There are no other customers who represent more than 10% of the total balance of trade receivables.

Trade receivables include amounts, totaling SR 2,615,703 that are past due at the end of reporting period for which the Group has not recognized an allowance for impairment of doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Age of receivables that are past due but not impaired

	<b>June 30, 2017</b>	December 31, 2016	1 January 2016
	<b>SR</b>	<b>SR</b>	<b>SR</b>
1 to 90 days	<b>2,610,728</b>	109,896	3,028,072
91 to 180 days	<b>4,975</b>	-	36,584
Average receivables (days)	<b>30 Days</b>	30 days	30 days

The ageing of trade receivables and related allowance for impaired receivables are as follows:

	<b>June 30, 2017</b>	<b>June 30, 2017</b>	December 31, 2016	December 31, 2016	January 1, 2016	January 1, 2016
	<b>Gross</b>	<b>Impairment</b>	Gross	Impairment	Gross	Impairment
	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>
Not past due	<b>4,880,650</b>	-	3,723,530	-	10,589,379	-
Past due 1-90 days	<b>2,610,728</b>	-	275,797	(165,901)	3,028,072	-
Past due 91-180 days	<b>33,815</b>	<b>28,840</b>	444,342	(444,342)	36,584	-
Above 180 days	<b>1,570,497</b>	<b>1,570,498</b>	976,325	(976,325)	1,394,511	(1,394,511)
	<b>9,095,690</b>	<b>1,599,338</b>	5,419,994	(1,586,568)	15,048,546	(1,394,511)

Movement in the allowance for doubtful debts is as follows:

	<b>June 30, 2017</b>	December 31, 2016	January 1, 2016
	<b>SR</b>	<b>SR</b>	<b>SR</b>
Opening balance	<b>1,586,568</b>	1,394,511	1,420,723
Provision for the period/year	<b>15,090</b>	202,778	(26,212)
Utilized provision against receivables written off	-	(10,721)	-
Recovered for ther period/year	<b>(2,320)</b>	-	-
Closing balance	<b>1,599,338</b>	1,586,568	1,394,511

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. The Group does not hold any collateral over impaired trade receivables.

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**6. INSTALLMENT SALES RECEIVABLE**

Details of sales installment receivables are as follows:

	<b>June 30, 2017 SR</b>	December 31, 2016 SR	January 1, 2016 SR
Installment sales receivable	<b>133,439,856</b>	91,566,632	26,649,171
Less: Impairment	<b>(13,564,002)</b>	(10,530,741)	(1,585,332)
Net installment sales receivable	<b>119,875,854</b>	81,035,891	25,063,839
Less: non-current portion included in non-current assets	<b>(25,468,292)</b>	(18,464,809)	(6,952,247)
Installment sales receivable, net - current portion	<b>94,407,562</b>	62,571,082	18,111,592

The average credit installment granted is SR 10,000 at pre-determined rate. The Group has recognized an allowance for doubtful debts of 100% against total unpaid principal balance that are more than 180 days as such receivables of this age are considered doubtful for collection.

Installment sales receivables include amounts totaling SR 7.5 million that are past due at the end of reporting period for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. All installment sales are covered by promissory notes.

Age of installment sales receivables that are past due but not impaired

	<b>June 30, 2017 SR</b>	December 31, 2016 SR	January 1, 2016 SR
1 to 89 days	<b>5,738,780</b>	4,653,180	116,749
90 to 179 days	<b>1,801,192</b>	2,073,067	332,213
Average receivables (days)	<b>25</b>	26	25

Movement in the allowance for doubtful debts

	<b>June 30, 2017 SR</b>	December 31, 2016 SR	January 1, 2016 SR
Opening balance	<b>10,530,741</b>	1,585,332	-
Provision for the period/year	<b>3,033,261</b>	8,945,409	1,585,332
Closing balance	<b>13,564,002</b>	10,530,741	1,585,332

In determining the recoverability of an installment sales receivable, the Group considers any change in the credit quality of the installment sales receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. All installment sales are covered by promissory notes.

**7. CASH AND CASH EQUIVALENTS**

	<b>June 30, 2017 SR</b>	December 31, 2016 SR	January 1, 2016 SR
Cash at banks	<b>116,729,934</b>	81,430,316	56,685,759
Cash on hand	<b>20,757,854</b>	18,767,642	9,536,421
	<b>137,487,788</b>	100,197,958	66,222,180

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**8. STATUTORY RESERVE**

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Group has established a statutory reserve by the appropriation of 10% of net income. General Assembly may cease such appropriation when reserve equaled 30% of the share capital.

**9. DEFERRED REVENUE FROM SALES AND LEASE BACK**

The Group entered into a contract with a third part whereby it sold and leased back the land and buildings on which the Group's Dammam branch is situated for a total amount of SR 69,646,242. The lease period is eighteen years commencing on July 1, 2015 and ending on June 30, 2033. The annual rent is paid in advance. This lease is accounted for as an operating lease. The Group has deferred the difference between the fair value of the asset leased-back and the related sales proceeds over the leaseback term at a monthly amount of SR 11,383.

The summary of the current and non-current portion of the deferred portions is as follows:

	June 30, 2017 SR	December 31, 2016 SR	January 1, 2016 SR
Current portion	136,596	136,596	136,596
Non-current portion	2,049,073	2,117,371	2,253,967
	<u>2,185,669</u>	<u>2,253,967</u>	<u>2,390,563</u>

**10. SEGMENTAL REPORTING**

The management of the Company views the entire business activities of the Company as one operating segment for performance assessment and resources allocation. Because the management views the entire business activities of the Company as one segment, segment reporting is provided by geographical segments only.

There are no intra segment transactions except those eliminated under consolidation adjustments. The details of the results pertaining to Kingdom of Saudi Arabia and subsidiaries results outside the Kingdom with their respective assets and liabilities for the period ended June 30, 2017 and June 30, 2016 are as follows:

*For three month period ended June 30, 2017 (Un-audited)*

	Inside the Kingdom of Saudi Arabia	Outside the Kingdom of Saudi Arabia	Consolidation adjustments	Total
Revenue, net	955,499,225	59,147,897	(741,878)	1,013,905,244
Cost of revenue	(790,967,358)	(50,848,572)	741,878	(841,074,052)
Gross profit	<u>164,531,867</u>	<u>8,299,325</u>	<u>-</u>	<u>172,831,192</u>
Net profit / (loss)	<u>43,396,963</u>	<u>(1,268,711)</u>	<u>1,240,992</u>	<u>43,369,244</u>

*For six month period ended June 30, 2017 (Un-audited)*

	Inside the Kingdom of Saudi Arabia	Outside the Kingdom of Saudi Arabia	Consolidation adjustments	Total
Revenue, net	1,710,233,905	109,832,914	(1,490,569)	1,818,576,250
Cost of revenue	(1,418,275,893)	(94,578,266)	1,490,569	(1,511,363,590)
Gross profit	<u>291,958,012</u>	<u>15,254,648</u>	<u>-</u>	<u>307,212,660</u>
Net profit / (loss)	<u>56,414,214</u>	<u>(2,659,789)</u>	<u>2,607,866</u>	<u>56,362,291</u>



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**10. SEGMENTAL REPORTING (continued)**

*Financial position as at June 30, 2017 (Un-audited)*

	<b>Inside the Kingdom of Saudi Arabia</b>	<b>Outside the Kingdom of Saudi Arabia</b>	<b>Consolidation adjustments</b>	<b>Total</b>
Current assets	971,804,181	49,362,375	(54,575,379)	966,591,177
Non-current assets	425,834,458	59,234,639	20,110,348	505,179,445
<b>Total Assets</b>	<b>1,397,638,639</b>	<b>108,597,014</b>	<b>(34,465,031)</b>	<b>1,471,770,622</b>
Current liabilities	764,993,730	119,553,044	(54,575,379)	829,971,395
Non-current liabilities	119,204,431	9,584,361	-	128,788,792
<b>Total Liabilities</b>	<b>884,198,161</b>	<b>129,137,405</b>	<b>(54,575,379)</b>	<b>958,760,187</b>

*For three month period ended June 30, 2016 (Un-audited)*

	<b>Inside the Kingdom of Saudi Arabia</b>	<b>Outside the Kingdom of Saudi Arabia</b>	<b>Consolidation adjustments</b>	<b>Total</b>
Revenue, net	829,184,973	52,083,091	-	881,268,064
Cost of revenue	(691,505,977)	(44,435,817)	-	(735,941,794)
Gross profit	137,678,996	7,647,274	-	145,326,270
Net profit / (loss)	10,208,580	(356,708)	1,171,393	11,023,265

*For six month period ended June 30, 2016 (Un-audited)*

	<b>Inside the Kingdom of Saudi Arabia</b>	<b>Outside the Kingdom of Saudi Arabia</b>	<b>Consolidation adjustments</b>	<b>Total</b>
Revenue, net	1,523,284,561	100,893,624	-	1,624,178,185
Cost of revenue	(1,294,280,136)	(87,059,478)	-	(1,381,339,615)
Gross profit	229,004,425	13,834,146	-	242,838,570
Net loss	(36,218,077)	(3,622,964)	4,979,357	(34,861,684)

*Financial position as at December 31, 2016 (Audited)*

	<b>Inside the Kingdom of Saudi Arabia</b>	<b>Outside the Kingdom of Saudi Arabia</b>	<b>Consolidation adjustments</b>	<b>Total</b>
<b>December 31, 2016</b>				
Current assets	764,907,475	46,838,162	(61,851,889)	749,893,748
Non-current assets	428,786,073	60,652,373	6,853,978	496,292,424
<b>Total Assets</b>	<b>1,193,693,548</b>	<b>107,490,535</b>	<b>(54,997,911)</b>	<b>1,246,186,172</b>
Current liabilities	583,486,759	114,216,052	(61,851,889)	635,850,922
Non-current liabilities	75,159,262	7,305,513	-	82,464,775
<b>Total Liabilities</b>	<b>658,646,021</b>	<b>121,521,565</b>	<b>(61,851,889)</b>	<b>718,315,697</b>

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**11. RELATED PARTIES' TRANSACTIONS AND BALANCES**

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below as terms and conditions of such transactions are approved by the Company's management, Board of Directors and General Assembly.

During the period, the Group entered into the following trading transactions with related parties that are not members of the Group:

**Trading transactions:**

Related Parties	Relationship	Sale of Goods		Purchase of Goods	
		June 30		June 30	
		2017	2016	2017	2016
United Homeware Company	Affiliate of a shareholder	-	-	2,436,450	-
Digital Electronics Solutions Development Company	Affiliate of a shareholder	-	-	-	16,544,503
Al Fozan Holding Company	Shareholder	(377,718)	(478,690)	-	-
Al Fozan Electrical Materials	Affiliate of a shareholder	-	-	-	165,250
Integrated Distribution Solutions Company	Affiliate of a shareholder	-	-	266,257,448	181,212,598
Al Yassra Trading Co.	Affiliate of a board member	-	-	660,455	-

During the period ended 30 June the Company had the following significant transactions with its related parties.

**Non-trading transactions:**

Related Parties	Management fees		Rent expense / (Income)		Other expenses	
	June 30		June 30		June 30	
	2017	2016	2017	2016	2017	2016
	SR	SR	SR	SR	SR	SR
Al Fozan Building Materials Co. Abdullatif and Mohamed	-	-	275,000	275,000	154,000	135,637
Al Fozan Co.	-	-	903,500	785,900	-	-
United Homeware Company	(140,417)	-	(2,467,293)	(2,191,582)	-	-
Digital Electronics Solutions Development Co.	-	(826,030)	-	-	-	-

**Key management compensation:**

	June 30, 2017	June 30, 2016
	SR	SR
Short term benefit	5,016,531	4,005,340
Amount payable under retention program	1,051,142	824,102
BOD and related committees remuneration	1,861,409	190,680

The following balances were outstanding at the end of the reporting period.

**Amounts (due to) / due from related parties**

	June 30, 2017	December 31, 2016	January 1, 2016
	SR	SR	SR
Integrated Distribution Solutions	(46,064,714)	(631,276)	2,917,668
United Homeware Company	(122,137)	(31,225)	(51,722)
Digital Electronics Solutions Development Co.	-	-	(15,037,405)
Al Yassra Trading Co.	(859,427)	(2,067,479)	-
	(47,046,278)	(2,729,980)	(12,171,459)

The amounts are on commercial substance and will be settled in cash. Balance due to related parties are included under trade and other payable.

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**12. EARNING PER SHARE**

During the period, the company issued bonus share of one ordinary share for each six ordinary shares outstanding by the end of trading on the day of the Extraordinary General Assembly (i.e. May 14, 2017). Such bonus shares were issued to the existing shareholders for no consideration. as required by IAS 33 "Earnings per share", the number of ordinary shares outstanding before the issuance were adjusted for the proportionate change in the number of ordinary shares outstanding as if the issuance had occurred at the beginning of the earliest period presented.

Basic and diluted earnings per share are based on net loss for the period attributable to shareholders of the company and a weightage average number of shares in issue of 42 million.

**13. FINANCIAL RISK MANAGEMENT**

The Group's principal financial liabilities comprise trade and other payables and loans The Group's principal financial assets cash and cash equivalents, trade and other receivables and installment sale receivables. The main financial risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of these risks which are summarized below:

**Market risk**

Market risk is the risk that changes in market prices, such as interest rates and foreign currency exchange rates may affect the Group's income. The Group was exposed to market risk, in the form of interest rate risk and foreign currency risk as described below, during the period under review. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

**Foreign currency risk management**

Foreign currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates. The Group's major financial assets and financial liabilities are denominated in Saudi Riyal, Omani riyal(OR), Bahraini Dinar (BD), US Dollars (USD), and Euro (Euro). Saudi riyals are pegged to the US Dollar, Bahraini Dinar and Omani Riyals and consequently balances in those currencies are not considered to represent a currency risk. Management monitors the fluctuations in Euro currency exchange rates with Saudi Riyals and manages its effect on the financial statements accordingly. Management monitors fluctuations in other foreign exchange rates and manages their effect on the consolidated financial statements accordingly. The Group did not have any significant foreign currency denominated monetary assets or liabilities at the reporting date for which it was exposed to foreign currency fluctuations. Consequently, no foreign currency sensitivity analysis has been presented. The group is exposed to foreign currency risk as follows:

		<b>June 30, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
	<b>Currency</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>
Cash and cash equivalents	USD	<b>713,623</b>	2,592,791	2,987,028
Trade and other receivables	USD	-	5,451,393	3,544,575
Trade and other payables	USD	<b>30,703,385</b>	47,895,278	35,011,546
		<b>31,417,008</b>	<b>55,939,642</b>	<b>41,543,149</b>

**Interest rate and liquidity risk management**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

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**13. FINANCIAL RISK MANAGEMENT (continued)**

*Interest rate sensitivity analysis*

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate assets and liabilities, the analysis is prepared assuming the amount of the assets or liability outstanding at the end of the reporting period was outstanding for the whole period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The following table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows:

	<u>Interest rate</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Total</u>
		SR	SR	SR
Trade and other payables	<b>Interest free</b>	<b>783,005,001</b>	-	<b>783,005,001</b>

**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 Group is exposed to credit risk on its short term cash investments, and trade and installment sales receivables. Short term cash investments are placed with banks and institutions with sound credit ratings.

The maximum exposure to credit risk at the reporting date was:

<u>Description</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>January 1, 2016</u>
	SR	SR	SR
Cash and cash equivalents	<b>137,487,788</b>	100,197,958	66,222,180
Accounts receivables and installment sales receivable	<b>184,966,134</b>	135,825,997	101,453,132
Medium term loan-Murabaha finance	-	-	30,000,000

The ageing of trade and and related allowance of impaired receivables and installment sales are included in note 5 and 6 respectively.

The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks. With respect to credit risk arising from the financial assets of the Group, including receivables from employees and bank balances, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these assets in the consolidated statement of financial position.

**Capital management**

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from the previous period/year. The capital structure of the Group consists of equity and debt comprising share capital, the statutory reserve, retained earnings, the foreign currency translation reserve. The Group is not subject to any externally imposed capital requirements.

**Fair value of financial instruments**

The directors consider that the carrying values of the financial instruments reported in the statement of financial position approximate their fair values

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**14. CONTINGENCIES AND COMMITMENTS**

	<b>June 30, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
	<b>SR</b>	<b>SR</b>	<b>SR</b>
Letters of credit	<u>266,100,969</u>	<u>159,320,299</u>	<u>167,688,995</u>
Letters of guarantee	<b>33,716,198</b>	<b>33,903,698</b>	<b>56,856,073</b>
Commitments for the acquisition of property and equipment	<b>7,324,553</b>	<b>25,715,141</b>	<b>6,764,231</b>

**15. SUBSEQUENT EVENT**

The Board of Directors in their meeting held on July 9, 2017 resolved to distribute SR 31.5 million cash dividends to the shareholders of the Company for the first half of 2017.

**16. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the presentation of the current year.

**17. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The condensed consolidated interim financial statements were approved by the board of directors and authorized for issue on July 25, 2017 corresponding to 2 Dhul Qadah 1438H.