

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

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(UNAUDITED)**

**FOR THE NINE MONTH PERIOD ENDED
30 SEPTEMBER 2015**

WITH INDEPENDENT AUDITORS' LIMITED REVIEW REPORT

UNITED COMPANY FOR ELECTRONICS
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2015

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**LIMITED REVIEW REPORT ON THE INTERIM
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**The Shareholders
UNITED COMPANY FOR ELECTRONICS and its Subsidiaries
(A Saudi Joint Stock Company)
Al-Khobar, Kingdom of Saudi Arabia**

Scope of limited review:

We have performed a limited reviewed the accompanying interim consolidated balance sheet of **United Company for Electronics and its Subsidiaries** ("the Company") and its subsidiaries (collectively referred to as "Group") as at September 30, 2015, the related consolidated interim statement of income for three and nine months period ended September 30, 2015 and the interim consolidated statement of cash flows and the interim consolidated statement of changes in shareholders' equity for the nine months period ended 30 September 2015 and the attached interim condensed consolidated notes 1 to 13 which form an integral part of these interim condensed consolidated financial statements. These interim condensed consolidated financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our limited review.

We conducted our limited review in accordance with the auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit 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 such an opinion.

Conclusion:

Based on our limited 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 accounting standards generally accepted in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Al Sadhan

Tareq Abdulrahman Al Sadhan
License No: 352



Al Khobar, 19 October 2015
Corresponding to: 6 Muharram 1437H

UNITED COMPANY FOR ELECTRONICS
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)
AS AT 30 SEPTEMBER 2015
(Expressed in Saudi Riyals)

	<u>Note</u>	30 SEPTEMBER 2015 UNAUDITED	30 SEPTEMBER 2014 UNAUDITED
ASSETS			
Current assets			
Cash and cash equivalents		216,389,164	65,349,934
Accounts receivables, net		32,136,876	21,122,410
Inventories		667,550,679	515,685,590
Prepayments and other current assets		70,174,211	55,379,990
Total current assets		986,250,930	657,537,924
Non-current assets			
Deferred tax asset		645,008	-
Property, plant and equipment		469,306,114	494,097,131
Total non-current assets		469,951,122	494,097,131
Total assets		1,456,202,052	1,151,635,055
LIABILITIES			
Current liabilities			
Accounts payable		632,923,869	417,447,973
Accrued expenses and other liabilities		86,776,283	88,538,097
Deferred revenue from additional service program – Short term portion		7,477,863	8,609,653
Deferred revenue from sale and leaseback	6	961,546	-
Murabaha Finance –current portion of medium term Murabaha	7	120,000,000	15,000,000
Zakat provision	5	1,000,118	2,900,816
Total current liabilities		849,139,679	532,496,539
Non-current liabilities			
Murabaha Finance –Medium term	7	15,000,000	35,000,000
Deferred revenue from additional service program – long term portion		7,335,583	6,733,634
Deferred revenue – long-term portion from operating lease	6	16,105,904	-
Employees' end of service benefits		46,021,412	38,378,096
Total non-current liabilities		84,462,899	80,111,730
Total liabilities		933,602,578	612,608,269
SHAREHOLDERS' EQUITY			
Share capital		360,000,000	300,000,000
Statutory reserve		65,181,470	60,343,209
Retained earnings		97,430,203	178,685,871
Foreign currency translation reserve		(14,369)	(5,294)
Total Shareholders' equity		522,597,304	539,023,786
Non- controlling interest		2,170	3,000
Total equity		522,599,474	539,026,786
Total liabilities and shareholders' equity		1,456,202,052	1,151,635,055

The interim condensed consolidated financial statements appearing on pages (1) to (14) were approved by the Board of Directors on 19 October 2015, corresponding to 6 Muharram 1437H and have been signed on its behalf by:

Finance Manager

Chief Executive Officer

Chairman

The accompanying notes 1 through 14 form an integral part of these interim condensed consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
FOR THE THREE AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2015
(Expressed in Saudi Riyals)

	Note	For the three month period ended 30		For the nine month period ended 30 SEP-	
		SEPTEMBER		TEMBER	
		2015	2014	2015	2014
		UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED
Revenue, net	10	719,473,228	809,055,885	2,470,875,175	2,600,672,714
Cost of Revenue	10	(590,946,170)	(665,000,522)	(2,069,149,083)	(2,143,813,012)
Gross profit		128,527,058	144,055,363	401,726,092	456,859,702
Selling and marketing expenses		(91,651,777)	(85,323,761)	(282,591,731)	(254,111,183)
General and administrative expenses		(25,075,763)	(28,436,888)	(76,581,683)	(85,674,962)
Operating income		11,799,518	30,294,714	42,552,678	117,073,557
Finance expenses		(330,290)	(1,248,484)	(1,612,581)	(3,072,227)
Gain on held-for trading investments		-	1,730,078	1,697,234	2,268,836
Other income (loss), net		1,041,352	(266,964)	(1,405,934)	(300,459)
Income before Zakat		12,510,580	30,509,344	41,231,397	115,969,707
Zakat	5	(311,488)	(762,246)	(1,771,335)	(3,202,468)
Deferred tax revenue		(126)	-	645,087	-
Net income for the period		12,198,966	29,747,098	40,105,149	112,767,239
Attributable to:					
Shareholders		12,198,966	29,747,098	40,105,149	112,767,239
Non-controlling interest		-	-	-	-
Net income for the period		12,198,966	29,747,098	40,105,149	112,767,239
Earning per share:					
Earnings per share from operating income for the period	8	0.33	0.84	1.18	3.25
Earnings per share from net income for the period	8	0.34	0.83	1.11	3.13

The accompanying notes 1 through 13 form an integral part of these interim condensed consolidated financial statements.

Finance Manager

Chief Executive Officer

Chairman

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

INTERIM CONDENSED CONSOLIDATED CASH FLOWS (UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015
(Expressed in Saudi Arabian Riyals)

	For the nine month period ended 30 SEPTEMBER	
	2015 <u>(UNAUDITED)</u>	2014 <u>(UNAUDITED)</u>
Cash flows from operating activities:		
Net income for the period	40,105,149	112,767,239
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation	34,601,073	33,087,772
Loss from sale of property, plant and equipment	1,223,956	(93,248)
Deferred revenue from leaseback	(240,387)	-
Finance expense	1,612,581	3,072,227
Zakat provision	1,771,335	3,202,468
Gain on Investments	-	(2,268,836)
Employees' end of service benefits	8,977,759	7,390,803
Deferred tax revenue	(645,008)	-
	<u>87,406,458</u>	<u>157,158,425</u>
<u>Changes in operating assets and liabilities:</u>		
Accounts receivable	(7,292,142)	(5,310,982)
Inventories	(2,137,727)	(35,652,922)
Prepayments and other current assets	(10,570,392)	7,832,566
Accounts payable and other current liabilities	25,854,525	84,299,144
Deferred revenue from sale and leaseback	(17,067,450)	-
Deferred revenue	17,782,407	1,808,772
Employees' end of service benefits paid	(3,387,877)	(2,058,270)
Finance expense paid	(1,612,581)	(3,072,227)
Board remuneration	(1,800,000)	-
Zakat paid	(3,874,996)	(4,696,623)
Net cash provided by operating activities	<u>83,300,225</u>	<u>200,307,883</u>
<u>Cash flows from investing activities</u>		
Additions to property, plant and equipment	(40,064,300)	(68,202,932)
Proceeds from disposal of property, plant, and equipment	50,649,581	159,850
Tading investement	-	(2,214,104)
Proceeds from disposal of investments	-	4,482,940
Consolidate subsidiary company	-	300,000
Net cash provided by / (used in) investing activities	<u>10,585,281</u>	<u>(65,474,246)</u>
<u>Cash flows from financing activities:</u>		
Dividend paid	(33,000,000)	(112,500,000)
Murabaha finance payment	(15,000,000)	(40,000,000)
Board of Directors remuneration paid dureing the period	-	(1,800,000)
Murabaha finance –Medium term	100,000,000	50,000,000
Net cash provided by / (used in) financing activities	<u>52,000,000</u>	<u>(104,300,000)</u>
Net change in cash and cash equivalents	<u>145,885,506</u>	<u>30,533,637</u>
Movement in foreign currency translation	37,170	(1,642)
Cash and cash equivalent at the beginning of the period	70,466,488	34,817,939
Cash and cash equivalents at end of the period	<u>216,389,164</u>	<u>65,349,934</u>
<u>Non- Cash transactions</u>		
The impact of the capital increase of SR 60 million was excluded from the interim consolidated statement of cash flows because it was deducted from retained earnings		

The accompanying notes 1 through 13 form an integral part of these interim condensed consolidated financial statements.

Finance Manager

Chief Executive Officer

Chairman

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

(Expressed in Saudi Arabian Riyals)

	Share capital	Statutory reserve	Retained earnings	Foreign currency translation reserve	Equity attributable to shareholders of the Company	Non-controlling interest	Total
Balance as at 1 January 2015 (audited)	300,000,000	61,170,955	156,135,569	(51,539)	517,254,985	2,170	517,257,155
Net income for the period ended 30 September 2015 (unaudited)	-	-	40,105,149	-	40,105,149	-	40,105,149
Transfer to statutory reserve	-	4,010,515	(4,010,515)	-	-	-	-
Dividend	-	-	(33,000,000)	-	(33,000,000)	-	(33,000,000)
Board of directors remunerations	-	-	(1,800,000)	-	(1,800,000)	-	(1,800,000)
Capital increase	60,000,000	-	(60,000,000)	-	-	-	-
Foreign currency translation adjustment during the period	-	-	-	37,170	37,170	-	37,170
Balance as at 30 September 2015	360,000,000	65,181,470	97,430,203	(14,369)	522,597,304	2,170	522,599,474
Balance as at 1 January 2014 (audited)	300,000,000	49,066,485	138,995,356	(3,652)	488,058,189	3,000	488,061,189
Net income for the period ended 30 September 2014 (unaudited)	-	-	112,767,239	-	112,767,239	-	112,767,239
Transfer to statutory reserve	-	11,276,724	(11,276,724)	-	-	-	-
Dividend	-	-	(60,000,000)	-	(60,000,000)	-	(60,000,000)
Board of directors remuneration	-	-	(1,800,000)	-	(1,800,000)	-	(1,800,000)
Foreign currency adjustment during the period	-	-	-	(1,642)	(1,642)	-	(1,642)
Balance as at 30 September 2014	300,000,000	60,343,209	178,685,871	(5,294)	539,023,786	3,000	539,026,786

The accompanying notes 1 through 13 form an integral of these interim condensed consolidated financial statements.

Finance Manager

Chief Executive Officer

Chairman

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015
(Expressed in Saudi Riyals)

1) ORGANIZATION AND PRINCIPAL ACTIVITIES

UNITED COMPANY FOR ELECTRONICS and its Subsidiaries (referred herein as The “Company”) is a Saudi joint stock Company initially registered in Riyadh under commercial registration No, 1010175357 dated 19 Moharram 1423 H (corresponding to 1 April 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, 1425 H (corresponding to 27 July 2004), From 24 December, 2011, the shares of the company have been listed on Saudi Stock Exchange “Tadawul”,

As at 31 December, 2014 the company’s share capital was SR 300 million divided into 30 million shares valued SR 10 each, However, on 27 April 2015, the company increased share capital by SR 60 million from retained earnings to be SR 360 million divided into 36 million shares valued SR 10 each.

The Company’s principal business activities represent 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.

The following are the subsidiaries of the company, the assets and liabilities and result of operations and cash flow of these subsidiaries have been included in the consolidated financial statements of the Company.

<u>Name of consolidated subsidiaries</u>	<u>Effective ownership</u> <u>2015</u>	<u>Effective ownership</u> <u>2014</u>
United Electronics company Extra S.P.C. a company registered in Bahrain	100%	100%
United Electronics company Extra L.L.C. a company registered in Oman	100%	100%
United Electronics company Maintenance and Electronics Company Limited, a company registered in Kingdom of Saudi Arabia	99%	99%

- 1- United Electronics Company-Extra S.P.C., is registered in Bahrain on 15 Dhul-Qa’da 1432H (corresponding to 13 October 2011). The principal activities of this subsidiary are importing, exporting and trading for 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 7 April 2012), the principal activities are retail of computer, non-customized softwares, household appliances (radio, television, refrigerators, crockery etc.), toys, games, satellites and phones. This subsidiary commenced its operations on January 18, 2013.
- 3- United Computers Maintenance and Electronics Company Limited, a Saudi limited liability company incorporated on 10 Rajab 1431H (corresponding to 22 June 2010). The principal activities are maintenance and repair and providing warranty for electronics, digital and electrical devices, home appliances and computers and wholesale trading and spare parts in electrical and digital devices, photocopy and fax machines, telephones, cell phones, video and electric games, digital pocket assistants, printer and computer related devices.
- 4- The Company has 37 branches in the Kingdom Of Saudi Arabia as of September 30, 2015 (36 branches as of December 31, 2014).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015
(Expressed in Saudi Riyals)

2) **BASIS OF PREPARATION**

(a) **Statement of compliance**

These accompanying interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA) and in the light of the relevant Saudi Laws and Regulations.

(b) **Basis of measurement**

These interim condensed consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting and the going concern concept except for held-for-trading securities.

(c) **Functional and presentation currency**

These interim condensed consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Company.

(d) **Use of estimates and judgments**

The preparation of financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these judgements and estimates of assumptions are prepared in the light of the most recent and relevant information available to management. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected, In particular, information about significant areas of estimated uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the interim condensed consolidated financial statements are described in the following notes:

Note 5	- Zakat and Income Tax
Note 9	- Contingencies
Note 11	- Financial instruments

3) **SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set below have been applied consistently to all periods presented in the interim condensed consolidated Financial statements. Certain comparative figures have been reclassified to conform with current year's presentation.

a) **Basis of consolidation**

These consolidated financial statements include the financial statements of the Company and its subsidiaries set forth in Note (1) above. Subsidiaries are entities controlled by the Holding company. Control is presumed to exist when the Holding Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases, All intra-group balances and financial transactions resulting from transactions between the Company and the subsidiaries and those arising between the subsidiaries are eliminated in preparing these consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015
(Expressed in Saudi Riyals)

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

b) **Cash and cash equivalents**

Cash and cash equivalents include cash on hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date deducting bankoverdrafts, if any. Cash flow statement has been prepared using the indirect method.

c) **Accounts receivable**

Accounts receivable are carried at original amounts less provision made for doubtful accounts. A provision for doubtful accounts is established when there is a significant doubt that the Company will not be able to collect all amounts due according to the original terms of invoice. Such provision is charged to the interim statement of income and reported under "Selling and Marketing expenses". When accounts receivable are uncollectible, they are written-off against the provision for doubtful accounts. Any subsequent recoveries of amounts previously written-off are credited against "other revenues" in the interim consolidated Statement of Income.

d) **Inventories**

Inventories are valued at the lower of cost or net realizable value. Cost is determined on the weighted-average method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. The value of inventory is reduced slow-moving, according to management estimates and inventory movement.

e) **Investment in securities available for sale**

Investments in trading securities, which are purchased for trading purposes, are initially recorded at cost then remeasured and recorded at market value under current assets in the balance sheet. Profits or losses realized or unrealized from selling securities available for sale and changes in market values are recorded at the balance sheet date or charged to the interim consolidated statement of income.

f) **Property, plant and equipment**

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulate impairment loss, if any. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognized in the statement of income when incurred.

Depreciation is charged to the interim consolidated statement of income on a straight-line basis over the estimated useful lives of individual item of property, plant and equipment,

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of fixed asset and are recognized net within "other income" in the interim consolidated statement of income. The estimated useful lives of assets are as follows:

<u>Item</u>	<u>Estimated useful lives/Years</u>
Buildings and leasehold improvement	10- 33 years
Furniture, Fixture and office equipment	4-10 years
Vehicles	5 years

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015
(Expressed in Saudi Riyals)

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

g) **Construction under progress**

Constructions under progress represents the accumulated costs incurred by the company in relation to the construction of its building and structures. Cost incurred for the construction of property, plant and equipments are initially charged to the construction under progress then these expenses are transferred to property, plant 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.

h) **Impairment of assets**

Financial assets

A financial asset is assessed at each annual reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

Non- financial assets

The carrying amounts of non-financial assets of the Company, except inventories, assets held for sale and assets resulting from construction contracts, if any, are reviewed at the date of the financial statements to ascertain whether there is an event or changes in circumstances indicating that the carrying amount of an asset exceeds its recoverable amount.

When such indicator exists, the recoverable amount of the asset is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less cost to sell. The impairment calculated as the difference between the carrying amount and estimated recoverable amount, discounted using the effective interest rate.

A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognized in respect of cash- generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit on a pro rata basis.

Impairment losses in respect of other intangible assets in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

i) **Accounts payable and accruals**

Liabilities are recognized for amounts to be paid for goods received and services rendered, whether or not billed to the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015
(Expressed in Saudi Riyals)

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

j) **Zakat and income tax**

The company is subject to the regulations of the Department of Zakat and Income Tax ("DZIT") in the kingdom of Saudi Arabia, Zakat and Income Tax are provided on an accrual basis and charged to the statement income. The Zakat charge is computed on the zakat base and income tax is computed on the adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

Deferred Tax

Deferred tax is provided for, using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on laws that have been enacted in the respective countries at the reporting date. Deferred tax assets are recognized for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized. The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

k) **Employees' end of service benefits**

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to consolidated statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his/ her services be terminated at the balance sheet date.

l) **Revenue recognition**

Revenue from sale of goods is recognized upon delivery or shipment of products to customers and is recorded net of returns, trade discounts and volume rebates.

Revenue from the sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- There is sufficient expectation that economic benefits will flow to the company; and
- It is probable that the costs that are charged or will be charged to the company with the transaction can be accurately determined,

Revenue from the services

Revenue from the additional services program is recognized, according to the services rendered. A particular portion of the collected revenue is deferred and amortized over the service agreement period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015
(Expressed in Saudi Riyals)

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

l) **Revenue recognition (continued)**

Revenue from service is recognized when all the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- There is sufficient expectation that economic benefits will flow to the company;
- The percentage of completion at the end of periods presented at the financial statements can be accurately determined, and

It is probable that the costs that are charged to the company with the transaction can be accurately determined.

Other revenue

Other revenues are recognized according to the accrual basis.

m) **Expenses**

Selling, marketing, general and administrative expenses include direct and indirect costs not specifically part of cost of revenues as required under generally accepted accounting standards. Allocations between cost of revenue and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

n) **Provisions**

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

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. Where 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 some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the 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.

o) **Leasing**

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of risks and rewards of ownership to the lessee, all other leases are classified as operating lease.

p) **Sale and leaseback**

Sale and leaseback transactions are recognized independent of the lease transactions. Any loss from the sale is recognized on the contract date while deferred gains are recognized in the future in proportion to the lease expenses compared to the total lease payments during the contract term.

q) **Interim results of operations**

The financial statements have been presented with comparative figures of the same period in previous year in accordance with the SOCPA standard of interim financial statements. All significant adjustments, that management believe that necessary for the fair presentation of interim financial statements and the result of the Company's operation were made.

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

q) **Interim results of operations (continued)**

These interim condensed consolidated financial statements and notes thereto should be read in conjunction with the annual audited consolidated financial statements and related notes for the year ended 31 December 2014.

The results of operations in these interim condensed financial statements do not necessarily represent an accurate indicator of the results of operations at year end.

r) **Segmental reporting**

A segment is a distinguishable component of the Company that is engaged in providing products, services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. Because the management views the whole activities of the Company as one operating segment, reporting is provided by geographical segments only.

s) **Basic and diluted earnings per share**

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

4) **RELATED PARTY TRANSACTIONS AND BALANCES**

In the ordinary course of its business, the Company deals with its related parties, which include purchases, sales and inter-group with related parties. These terms and conditions of such transactions are approved by the Company's management. The significant Related parties are listed as follows:

<u>Name of entity</u>	<u>Relationship</u>
Digital and Electronic Solutions Development Company ("DESD") and its subsidiary	Affiliate of a shareholder

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

<u>Related Party</u>	<u>Nature of transactions</u>	<u>2015</u>	<u>2014</u>
Digital and Electronic Solutions Development Company ("DESD") and its subsidiary	Purchases	269,312,253	265,503,850

Trade payables include balance payable by the DESD and its subsidiary amounting to SR 19,042,200 (30 September 2014: SR 28,743,509).

5) **ZAKAT AND TAX PROVISION**

As per the Saudi Regulations, the Saudi Shareholders are subject to Zakat calculated according to regulations promulgated by the government authorities computed at 2,5%.

Computation and provision of estimated Zakat and Income Tax liability are made quarterly, Adjustments arising from final zakat assessments are recorded in the period in which such assessments are approved.

UNITED COMPANY FOR ELECTRONICS AND ITS SUBSIDIARIES
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6) SALE AND LEASEBACK

The company concluded a contract with The Second Saudi Economy and Development Co. for Real Estate Funds for a sale and leaseback of land to build Dammam branch at a total rental cost of SR 69,646,242 million for a period of eighteen years starting from July 1, 2015 until June 30, 2033, provided that annual rent shall be paid in advance. This sale resulted in SR 17,307,837. The company postponed recognized this profit so that it shall be recognized over the contract term at a monthly amount of SR 80,129 in accordance with clause 5/5 of Standard No. 14 of the Generally Accepted Accounting Standards in Saudi Arabia.

7) MURABAHA FINANCE

The group has bank facilities from local banks for letter of credit, letters of guarantee and Islamic Murabaha financing. These facilities carry finance charges at market rates and these are secured against promissory notes. These facilities are subject to Islamic Shariah principles are as follow:

	<u>30 September</u> <u>2015</u>	<u>30 September</u> <u>2014</u>
Murabaha Finance and Current Portion of Medium term finance	120,000,000	15,000,000
Medium-term Murabaha finance	15,000,000	35,000,000

The maturity profile of the above Murabaha medium term finance at 30 September, 2015 based on the repayment schedule is as follow:

	<u>2015</u>	<u>2014</u>
2015	105,000,000	-
2016	20,000,000	-
2017	10,000,000	-

8) EARNING PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. With regard to diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

	<u>2015</u> <u>(Unaudited)</u>	<u>2014</u> <u>(Unaudited)</u>
Net income for the period	40,105,149	112,767,239
Add: Weighted average number of shares issued		
Weighted average number of outstanding shares as 30 September*	36,000,000	36,000,000
Basic and diluted earnings per share from net income	1.11	3.13
Basic and diluted earnings per share from operating income	1.18	3.25

* During the period, 6,000,000 shares were issued to existing shareholders under the General Assembly's resolution dated April 27, 2015, transferred from the company's retained earnings. Accordingly, the weighted average of the existing shares was adjusted, due to this increase, as of the start of the current period (January 1, 2015), in accordance with the generally accepted accounting principles in the Kingdom of Saudi Arabia. In addition, this increase in the number of shares takes effect on all the periods presented in the financial statements, for comparison purposes.

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9) **CONTINGENCIES AND CAPITAL COMMITMENT**

Contingencies as at September 30, comprise of the following:

	<u>2015</u>	<u>2014</u>
Bank guarantees	<u>56,762,248</u>	<u>58,086,498</u>
letters of credit	<u>196,864,533</u>	<u>128,794,554</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. The details of the local sales and subsidiaries sales outside the Kingdom for the nine month period ended 30 September 2015 and 2014 are as follows:

<u>2015 (Unaudited)</u>	<u>Local sales</u>	<u>International sales</u>	<u>Total</u>
Sales	<u>2,332,395,224</u>	<u>138,479,951</u>	<u>2,470,875,175</u>
Cost of sales	<u>(1,949,673,630)</u>	<u>(119,475,453)</u>	<u>(2,069,149,083)</u>
Gross profit	<u>382,721,594</u>	<u>19,004,498</u>	<u>401,726,092</u>
Gross profit percentage	16%	14%	16%
<u>2014 (Unaudited)</u>	<u>Local sales</u>	<u>International sales</u>	<u>Total</u>
Sales	<u>2,461,714,009</u>	<u>138,958,705</u>	<u>2,600,672,714</u>
Cost of sales	<u>(2,023,660,672)</u>	<u>(120,152,340)</u>	<u>(2,143,813,012)</u>
Gross profit	<u>438,053,337</u>	<u>18,806,365</u>	<u>456,859,702</u>
Gross profit percentage	18%	14%	18%

11) **FINANCIAL INSTRUMENTS**

Financial instruments carried on the interim consolidated balance sheet include cash and cash equivalents, trade and other accounts receivable, investments, trade payable, and other liabilities.

Credit risk is the risk that one party may fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has no significant concentration of credit risks, Cash and cash equivalents are placed with local banks with sound credit ratings. Trade and other accounts receivable are mainly due from local customers and related parties and are stated at their estimated realizable values.

Interest rate risk is the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's interest rate risk arise mainly from short term bank deposits and bank debts and long term debts, which are at floating rates of interest.

Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Company are not significant.

Liquidity risk is the risk that an enterprise may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to realize the value of a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet Company's future commitments.

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11) FINANCIAL INSTRUMENTS (Continued)

Currency risk is the risk that the value of a financial instrument may fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi riyal, Bahrain dinar and Oman riyal, Other transactions in foreign currencies other than Bahrain dinar and Oman riyal are not material, Currency risk is managed on regular basis.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the accompanying interim condensed consolidated financial statements are prepared under the historical cost method differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

12) SUBSEQUENT EVENTS

United Electronics Company Announces (Extra) signed a letter on 17 Shaaban 1436 H, corresponding to 4 September, 2015 with Mohammad Yousuf Al Sakr and Associates in International Regions Company to acquire 51% controlling interest of the company a group that works in the field of fashion retail (i.e. DKNY, Kenzo, Max Mara, Koton ...etc) shoes (Jimmy Choo, Ecco ...etc) and accessories (On Time, Trinkets....etc.). After restructuring, it will have more than 240 branches in seven countries in the region.

This letter is subject to a satisfactory completion of due diligence and other procedures. Accordingly, it does not have significant effect on the balances reported in these Financial Statements, and final agreement between both parties.

13) COMPARATIVE FIGURES

Certain comparative period balances have been reclassified to be consistent with current period presentation.