

AL HASSAN GHAZI IBRAHIM SHAKER COMPANY
(A Saudi Joint Stock Company)
UNAUDITED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
For the three-months and nine-months periods ended
September 30, 2016
with
INDEPENDENT AUDITORS' REVIEW REPORT

AL HASSAN GHAZI IBRAHIM SHAKER COMPANY
(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three-months and nine-months periods ended September 30, 2016

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REVIEW REPORT ON INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To: **The Shareholders**
Al Hassan Ghazi Ibrahim Shaker Company
(A Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia.

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of **Al Hassan Ghazi Ibrahim Shaker Company** (the "Company") and its subsidiaries (collectively referred as the "Group") as at September 30, 2016, the related interim consolidated statements of income for three-months and nine-months periods then ended, the interim consolidated statements of cash flows and changes in equity for the nine-months period then ended and the attached notes 1 through 10 which form an integral part of the interim consolidated financial statements. These interim 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 provide a conclusion on the review of these interim consolidated financial statements based on our review.

We conducted our review in accordance with Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of analytical procedures applied to financial data and information and making inquiries of Company's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants


Khalil Ibrahim Al Sedais
License No: 371



Riyadh on: Moharram 16, 1438H
Corresponding to: October 17, 2016

AL HASSAN GHAZI IBRAHIM SHAKER COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at September 30, 2016

(Expressed in Thousands of Saudi Riyals, Unless Otherwise Stated)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents		51,144	104,189
Trade receivables		731,215	435,302
Inventories		762,081	1,006,646
Prepayments and other current assets		116,274	156,235
Total current assets		1,660,714	1,702,372
Non-current assets:			
Non-current trade receivable		13,651	17,292
Investment in equity accounted investees	3	582,480	554,013
Property and equipment		264,322	263,637
Goodwill	4	25,699	25,699
Total non-current assets		886,152	860,641
Total assets		2,546,866	2,563,013
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Short-term borrowings	5 (b)	760,407	607,764
Current portion of long-term borrowings	5 (c)	21,441	12,131
Trade payables	6	393,262	657,724
Accrued Zakat		15,800	16,511
Accrued expenses and other current liabilities		121,055	129,537
Total current liabilities		1,311,965	1,423,667
Non-current liabilities:			
Long-term borrowings, non-current portion	5 (c)	43,171	6,258
Employees' end of service benefits		42,099	39,350
Total non-current liabilities		85,270	45,608
Total liabilities		1,397,235	1,469,275
EQUITY			
Equity attributable to the Company's shareholders:			
Share capital	7	630,000	630,000
Statutory reserve		143,927	137,969
Retained earnings		355,445	301,823
Total equity attributable to the Company's shareholders		1,129,372	1,069,792
Non-controlling interests		20,259	23,946
Total equity		1,149,631	1,093,738
Total liabilities and equity		2,546,866	2,563,013

The attached notes 1 through 10 form an integral part of these interim consolidated financial statements.

AL HASSAN GHAZI IBRAHIM SHAKER COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

For the three-months and nine-months periods ended September 30, 2016

(Expressed in Thousands of Saudi Riyals, Unless Otherwise Stated)

	Notes	For the three-months period ended 30 September		For the nine-months period ended 30 September	
		2016	2015	2016	2015
Sales		401,377	442,123	1,330,204	1,511,810
Cost of sales		(306,969)	(326,348)	(1,001,736)	(1,136,948)
Gross profit		94,408	115,775	328,468	374,862
Selling and distribution expenses		(43,210)	(45,785)	(142,607)	(133,514)
General and administrative expenses		(41,652)	(42,389)	(116,564)	(127,653)
Operating income		9,546	27,601	69,297	113,695
Other income, net		606	698	5,533	1,324
Financial (charges) / income		(6,695)	130	(21,741)	(17,236)
Re-measurement to fair value of equity interest in the investee		--	--	--	(856)
Share in net income of equity accounted investees		(239)	17,861	27,021	55,625
Income before Zakat and non-controlling interests		3,218	46,290	80,110	152,552
Zakat		(1,451)	(2,040)	(5,092)	(7,412)
Net income before non-controlling interests		1,767	44,250	75,018	145,140
Non-controlling interests share in net loss of consolidated subsidiaries		595	1,966	2,404	9,238
Net income for the period		2,362	46,216	77,422	154,378
Earnings per share:					
Weighted average number of ordinary shares outstanding (shares)		63,000	63,000	63,000	63,000
Operating income (Saudi Riyals)	8	0.15	0.44	1.10	1.80
Net income (Saudi Riyals)	8	0.04	0.73	1.23	2.45

The attached notes 1 through 10 form an integral part of these interim consolidated financial statements.

AL HASSAN GHAZI IBRAHIM SHAKER COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the nine-months period ended September 30, 2016

(Expressed in Thousands of Saudi Riyals, Unless Otherwise Stated)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Income before Zakat and non-controlling interests	80,110	152,552
<u>Adjustments for:</u>		
Depreciation	10,500	9,148
Re-measurement to fair value of equity interest in the investee	--	856
Share in net income of equity accounted investees	(27,021)	(55,625)
Provision for doubtful debts	3,613	8,331
Provision for inventories	5,712	4,010
Gain on disposal of property and equipment	(394)	(1,242)
Provision for employees' end of service benefits	8,039	5,019
Financial charges	21,741	17,236
	<u>102,300</u>	<u>140,285</u>
<u>Changes in operating assets and liabilities:</u>		
Increase in trade receivables	(274,165)	(94,813)
Decrease / (increase) in inventories	167,700	(283,243)
Increase in prepayments and other current assets	(19,709)	(24,981)
(Decrease) / increase in trade payables	(30,921)	398,417
Increase in accrued expenses and other current liabilities	486	(16,606)
	<u>(54,309)</u>	<u>119,059</u>
Employees' end of service benefits paid	(5,753)	(2,010)
Financial charges paid	(17,779)	(14,377)
Zakat paid	(6,878)	(6,847)
	<u>(84,719)</u>	<u>95,825</u>
Net cash (used in) / provided by operating activities	<u>(84,719)</u>	<u>95,825</u>
Cash flows from investing activities		
Additions to property and equipment	(16,583)	(38,115)
Proceeds from sale of property and equipment	466	514
Investment in an associate	--	(1,500)
	<u>(16,117)</u>	<u>(39,101)</u>
Net cash used in investing activities	<u>(16,117)</u>	<u>(39,101)</u>
Cash flows from financing activities		
Net movement in short-term borrowings	79,107	(27,170)
Proceeds from long-term borrowings	4,215	15,631
Repayment of long-term borrowings	(16,612)	(5,914)
	<u>66,710</u>	<u>(17,453)</u>
Net cash provided by / (used in) financing activities	<u>66,710</u>	<u>(17,453)</u>
Net (decrease) / increase in cash and cash equivalents	(34,126)	39,271
Cash and cash equivalents acquired during the period	--	5
Cash and cash equivalents at beginning of the period	85,270	64,913
	<u>51,144</u>	<u>104,189</u>
Cash and cash equivalents at end of the period	<u>51,144</u>	<u>104,189</u>

The attached notes 1 through 10 form an integral part of these interim consolidated financial statements.

AL HASSAN GHAZI IBRAHIM SHAKER COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine-months period ended September 30, 2016
(Expressed in Thousands of Saudi Riyals, Unless Otherwise Stated)

	<u>Equity attributable to the Company's shareholders</u>			<u>Total shareholders' equity</u>	<u>Non-controlling interests</u>	<u>Total</u>
	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>			
Balance at January 1, 2015 (audited)	350,000	122,531	442,883	915,414	11,028	926,442
Net income for the period	--	--	154,378	154,378	(9,238)	145,140
Transfer to statutory reserve	--	15,438	(15,438)	--	--	--
Bonus shares (Note 7)	280,000	--	(280,000)	--	--	--
Other movement in non-controlling interests	--	--	--	--	22,156	22,156
Balance at September 30, 2015 (unaudited)	630,000	137,969	301,823	1,069,792	23,946	1,093,738
Balance at January 1, 2016 (audited)	630,000	136,185	285,765	1,051,950	22,663	1,074,613
Net income for the period	--	--	77,422	77,422	(2,404)	75,018
Transfer to statutory reserve	--	7,742	(7,742)	--	--	--
Balance at September 30, 2016 (unaudited)	630,000	143,927	355,445	1,129,372	20,259	1,149,631

The attached notes 1 through 10 form an integral part of these interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine-months period ended September 30, 2016

(Expressed in Thousands of Saudi Riyals, Unless Otherwise Stated)

1. THE COMPANY, ITS SUBSIDIARIES AND NATURE OF BUSINESS

- 1.1 Al Hassan Ghazi Ibrahim Shaker Company (the “Company” (or) the “Parent Company” (or) “HGISC”) was registered as a limited liability Company in the Kingdom of Saudi Arabia under Commercial Registration number 1010149252 dated 26 Dhul Qidah 1418H (corresponding to March 25, 1998). The Company has converted from a limited liability company to a closed joint stock company pursuant to Ministerial Resolution No. 275 on Shabaan 17, 1429H (corresponding to August 18, 2008).
- 1.2 As decided by the shareholders of the Parent Company, the Parent Company offered 10.5 million shares to public, during subscription period from April 26, 2010 (corresponding to Jumad Awal 11, 1431H) to May 2, 2010 (corresponding to Jumad Awal 17, 1431H). The Parent Company’s shares started trading in the Stock Exchange on May 17, 2010 (corresponding to Jumad Thani 3, 1431H). Accordingly, after successful completion of the IPO (Initial Public Offering Process), the Parent Company was declared as a Saudi Joint Stock Company with a share capital of SR 350 million, divided into 35 million shares of SR 10 each. On March 29, 2015, a bonus of four shares for every five ordinary shares outstanding was issued and resultantly the share capital of the Company was increased from SR 350 million to SR 630 million.
- 1.3 The Parent Company is engaged in the trading and wholesale of spare parts, electronic equipment, household equipment and air-conditioners, and maintenance of the items mentioned above and to provide agency services for those companies which are in the same business.
- 1.4 The Company’s registered office is located at the following address:
Shaker Group Building
Alsahafa District
King Fahad Road
Riyadh 11422
Kingdom of Saudi Arabia
- 1.5 These interim consolidated financial statements include the financial position and performance of the Company and its branches as well as the following subsidiaries (collectively the “Group”).

Direct and indirect subsidiaries

<u>Name</u>	<u>Principal field of activity</u>	<u>Country of incorporation</u>	<u>Effective ownership interest at September 30,</u>	
			<u>2016</u>	<u>2015</u>
Ibrahim Shaker Company Limited (“ISCL”)	Wholesale of household appliances	Saudi Arabia	100%	100%
Ibrahim Hussein Shaker Projects and Maintenance Company Limited (“IHSCL”)	Import, export and marketing services	Saudi Arabia	100%	100%
ASDAA Gulf Trading Company (“ASDAA”) (note 4 (a))	Wholesale of electronic devices	Saudi Arabia	100%	100%
Energy Management Services Emirates LLC (“EMS”) (note 4 (b))	Energy solution providers	United Arab Emirates	74%	74%
New Vision for Electronics and Electrical Appliances Company (“NVEEAC”)	Import, export and maintenance of electrical and home appliances	Jordan	60%	60%

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the nine-months period ended September 30, 2016
(Expressed in Thousands of Saudi Riyals, Unless Otherwise Stated)

1. THE COMPANY, ITS SUBSIDIARIES AND NATURE OF BUSINESS (continued)

Entities controlled through a subsidiary

<u>Name</u>	<u>Principal field of activity</u>	<u>Country of incorporation</u>	<u>Subsidiary ownership interest at September 30,</u>	
			<u>2016</u>	<u>2015</u>
<u>EMS</u>				
Energy Management Services International (“EMSI”)	Energy solution providers	Jordan	100%	100%
Jernain EMS Company LLC (“JECL”)	Energy solution providers	United Arab Emirates	100%	100%

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The accompanying interim consolidated financial statements have been prepared in accordance with Saudi Accounting Standard for interim financial information issued by Saudi Organization for Certified Public Accountants (“SOCPA”). These interim consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and should be read in conjunction with the Group’s annual audited consolidated financial statements for the year ended December 31, 2015.

The results presented in the interim consolidated financial statements may not be an accurate indicator of the annual financial statements.

b) Basis of measurement

The accompanying interim consolidated financial statements have been prepared under historical cost basis convention, using the accrual basis of accounting and the going concern assumption. Certain comparative amounts have been reclassified to conform to the current period’s presentation.

c) Functional and presentation currency

These interim consolidated financial statements are presented in Saudi Riyals (SR), which is the functional and reporting currency of the Company. All amounts have been rounded off to the nearest thousand, unless otherwise stated.

d) Use of estimates and judgements

The preparation of consolidated 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. 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine-months period ended September 30, 2016

(Expressed in Thousands of Saudi Riyals, Unless Otherwise Stated)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognized in the financial statements are as follows:

- Impairment of trade receivables
- Provision for slow moving inventory items
- Useful lives of property and equipment
- Impairment of non-financial assets

e) Significant accounting policies

The significant accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year ended December 31, 2015.

3. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES

3.1 The details of the Company's associates are as follows:

<u>Name</u>	<u>Principal field of activity</u>	<u>Country of incorporation</u>	<u>% of capital held (directly or indirectly) at September 30,</u>	
			<u>2016</u>	<u>2015</u>
LG Shaker Company Limited ("LG Shaker")	Manufacture of air conditioners	Saudi Arabia	49%	49%
Shaker Electronic and Appliances Lebanon Company ("SEALCO")	Trading of electrical and home appliances	Lebanon	20%	20%

3.2 Investment in equity accounted investees at September 30 comprise the following:

	<u>2016</u>	<u>2015</u>
LG Shaker (note 3.3 (a))	578,555	549,688
SEALCO (note 3.3 (b))	3,925	4,325
	<u>582,480</u>	<u>554,013</u>

3.3 Movement in equity accounted investees during the period ended September 30 is analysed as follows:

a) LG Shaker

	<u>2016</u>	<u>2015</u>
At January 1	551,134	493,372
Share of profit for the period	27,421	56,316
At September 30	<u>578,555</u>	<u>549,688</u>

b) SEALCO

	<u>2016</u>	<u>2015</u>
At January 1	4,325	4,898
Share of loss for the period	(400)	(573)
At September 30	<u>3,925</u>	<u>4,325</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the nine-months period ended September 30, 2016
(Expressed in Thousands of Saudi Riyals, Unless Otherwise Stated)

4. GOODWILL

Goodwill at September 30 comprise the following:

	<u>2016</u>	<u>2015</u>
ASDAA Gulf Trading Company (note 4 (a))	9,854	9,854
Energy Management Services Emirates LLC (note 4 (b))	<u>15,845</u>	<u>15,845</u>
	<u>25,699</u>	<u>25,699</u>

- a) Effective November 12, 2014, HGISC acquired effectively 100% of shareholding in ASDAA (HGISC: 95% and ISCL: 5%) for purchase consideration of SR 20 million, which was in excess of the fair value of the net assets acquired by SR 9.9 million and has been accounted for as goodwill in these interim consolidated financial statements.

The management reviews goodwill for impairment annually for the purpose of impairment testing. Goodwill has been allocated to the investee (i.e. a single cash generating unit). The recoverable amount of the cash generating unit is determined based on a value in use calculated using cash flow projection based on financial budgets.

- b) During 2014, HGISC entered into SPA to acquire additional 54% shareholding in EMS increasing its previous shareholding of 20% to revised 74%. Effective March 10, 2015, legal formalities for the transfer of 54% shareholding in EMS were completed and hence consolidated its results as a subsidiary since this date.

5. BANK BORROWINGS

- a) The Group has credit facility agreements with local and foreign commercial banks for long and short-term borrowings in Saudi Riyals, United Arab Emirates Dirham and Jordanian Dinar. Such facilities were obtained principally under Marabaha / Tawaruq arrangements. The utilised portion of the long-term facilities are repayable on equal monthly instalments. The facility agreements are secured by promissory notes. The facilities bear financial charges on prevailing market rates.

The loan agreement contains certain covenants, which among other things, requires certain financial ratios to be maintained.

- b) Short-term borrowings

Short-term borrowings at September 30 represent the following:

	<u>2016</u>	<u>2015</u>
Overdraft	1,579	2,659
Short-term loans	703,711	537,226
Notes payable	<u>55,117</u>	<u>67,879</u>
	<u>760,407</u>	<u>607,764</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the nine-months period ended September 30, 2016
(Expressed in Thousands of Saudi Riyals, Unless Otherwise Stated)

5. BANK BORROWINGS (continued)

c) Long-term borrowings

Long-term borrowings at September 30 represent the following:

	<u>2016</u>	<u>2015</u>
Commercial banks	<u>64,612</u>	<u>18,389</u>
Presented in the balance sheet as follows:		
Current portion shown under current liabilities	<u>21,441</u>	12,131
Non-current portion shown under non-current liabilities	<u>43,171</u>	<u>6,258</u>
	<u>64,612</u>	<u>18,389</u>

6. TRADE PAYABLES

Trade payables at September 30 comprise the following:

	<u>2015</u>	<u>2014</u>
Related parties	<u>337,305</u>	602,215
Other parties	<u>55,957</u>	<u>55,509</u>
	<u>393,262</u>	<u>657,724</u>

7. SHARE CAPITAL

At September 30, 2016, the authorized, issued and paid up share capital of the Company is SR 630 million (2015: SR 630 million) consisting of 63 million shares (2015: 63 million shares) of SR 10 each.

On March 29, 2015, the Board of Directors proposed to increase the Company's share capital to SR 630 million by issuing four bonus shares for every five ordinary shares outstanding as of that date. Later, the shareholders in the Annual General Assembly Meeting on May 21, 2015, approved the Board of Director's proposal and authorized issuance of 28 million bonus share at a nominal value SR 10 each and resultantly the share capital of the Company was increased from SR 350 million to SR 630 million. The legal formalities for the increase in capital were completed on June 14, 2015.

8. EARNINGS PER SHARE

Earnings per share on operating income including non-controlling interests is calculated by dividing operating income by weighted average number of shares in issue during the period.

Earnings per share on net income is calculated by dividing the net income by the weighted average number of shares in issue during the period.

The calculation of diluted earnings per share is not applicable to the Parent Company.

AL HASSAN GHAZI IBRAHIM SHAKER COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine-months period ended September 30, 2016

(Expressed in Thousands of Saudi Riyals, Unless Otherwise Stated)

9. SEGMENT INFORMATION

The Company's operations are conducted in Saudi Arabia, Jordan and United Arab Emirates; however, more than 90% of the Group's operation are conducted within Saudi Arabia. The management views the activities of the Group's operations under two business units, as detailed below:

	<u>September 30, 2016</u>		<u>Total</u>
	<u>LG Air- Conditioners and home appliances</u>	<u>Non – LG Air- Conditioners and Products</u>	
Sales	1,036,446	293,758	1,330,204
Cost of sales	(798,132)	(203,604)	(1,001,736)
Gross profit	238,314	90,154	328,468
Un-allocated expenses and income:			
Selling and distribution expenses			(142,607)
General and administrative expenses			(116,564)
Other income, net			5,533
Financial charges			(21,741)
Share in net income of equity accounted investees			27,021
Zakat			(5,092)
Net income before non-controlling interests			<u>75,018</u>

	<u>September 30, 2015</u>		<u>Total</u>
	<u>LG Air- Conditioners and home appliances</u>	<u>Non – LG Air- Conditioners and Products</u>	
Sales	1,223,575	288,235	1,511,810
Cost of sales	(946,905)	(190,043)	(1,136,948)
Gross profit	276,670	98,192	374,862
Un-allocated expenses and income:			
Selling and distribution expenses			(133,514)
General and administrative expenses			(127,653)
Other income, net			1,324
Financial charges			(17,236)
Re-measurement to fair value of equity interest in the investee			(856)
Share in net income of equity accounted investees			55,625
Zakat			(7,412)
Net income before non-controlling interests			<u>145,140</u>

The Group's assets and liabilities are managed on a group basis and are not allocated to operating segments.

10. BOARD OF DIRECTORS' APPROVAL

These unaudited interim consolidated financial statements were approved by the Board of Directors for issuance on Moharram 16, 1438H, corresponding to October 17, 2016.