Al Hassan Ghazi Ibrahim Shaker Company
(a Saudi Joint Stock Company)
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
For the three months ended
31 March 2017
Together with the review report

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying 31 March 2017 condensed consolidated interim financial statements of **Al Hassan Ghazi Ibrahim Shaker Company** ("the Group") which comprises:

- the condensed consolidated statement of financial position as at 31 March 2017;
- the condensed consolidated statement of profit or loss and other comprehensive income for the three-month period ended 31 March 2017;
- the condensed consolidated statement of changes in equity for the three-month period ended 31 March 2017;
- the condensed consolidated statement of cash flows for the three-month period ended 31 March 2017; and
- the notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

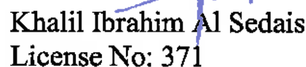
Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information 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 that are 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 condensed consolidated interim financial statements of the Group are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants



Khalil Ibrahim Al Sedais
License No: 371

Date: 13 Sha'ban 1438H
Corresponding to: 9 May 2017

KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, a Swiss entity.

Al Hassan Ghazi Ibrahim Shaker Company
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
As at 31 March 2017
(In Thousands of Saudi Riyals, Unless Otherwise stated)

	Notes	*31 March 2017 SR*	*31 December 2016 SR*	*1 January 2016 SR*
ASSETS				
Property and equipment		**253,217**	256,325	258,311
Intangible assets and goodwill	4	**13,052**	13,155	13,568
Trade and other receivables	7	**15,489**	13,557	13,011
Equity accounted investees	5	**593,516**	577,558	555,459
Non-current assets		**875,274**	860,595	840,349
Inventories	6	**745,319**	685,344	935,493
Trade and other receivables	7	**755,314**	751,954	519,217
Prepayments and advances		**38,800**	33,926	38,651
Cash and cash equivalents		**30,458**	54,618	85,270
Current assets		**1,569,891**	1,525,842	1,578,631
Total assets		**2,445,165**	2,386,437	2,418,980
EQUITY				
Share capital	8	**630,000**	630,000	630,000
Statutory reserve	9	**140,937**	140,937	136,185
Retained earnings		**258,367**	273,257	275,790
Equity attributable to owners of the Company		**1,029,304**	1,044,194	1,041,975
Non-controlling interest		**25,043**	12,115	15,624
Total equity		**1,054,347**	1,056,309	1,057,599
LIABILITIES				
Loans and borrowings	10	**32,577**	37,882	56,505
Employee benefits	11	**41,570**	43,232	44,696
Non-current liabilities		**74,147**	81,114	101,201
Loans and borrowings	10	**801,444**	777,716	673,416
Trade and other payables		**480,103**	436,123	542,107
Zakat and foreign income tax liabilities		**17,448**	15,918	17,586
Provisions		**17,676**	19,257	27,071
Current liabilities		**1,316,671**	1,249,014	1,260,180
Total liabilities		**1,390,818**	1,330,128	1,361,381
Total equity and liabilities		**2,445,165**	2,386,437	2,418,980

The notes 1 to 18 form an integral part of these condensed consolidated interim financial statements.

Al Hassan Ghazi Ibrahim Shaker Company
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OCI (UNAUDITED)

For the three months ended 31 March 2017
(In Thousands of Saudi Riyals, Unless Otherwise stated)

	Notes	*31 March 2017*	*31 March 2016*
		SR	*SR*
Revenue	13	**292,318**	395,070
Cost of sales		**(225,233)**	(296,411)
Gross profit		**67,085**	98,659
Other income		**137**	652
Selling and distribution expenses		**(51,346)**	(41,484)
Administrative expenses		**(33,414)**	(34,543)
Other expenses		**(5,136)**	(190)
Operating (loss) / profit		**(22,674)**	23,094
Finance costs		**(7,547)**	(7,900)
Share of profit of equity-accounted investees	5	**15,958**	13,639
(Loss) / profit before Zakat and foreign income tax		**(14,263)**	28,833
Zakat and foreign income tax expense		**(1,530)**	(1,901)
(Loss) / profit for the period		**(15,793)**	26,932
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Re-measurement of the defined benefit liability		**-**	-
Other comprehensive income for the period, net of zakat and foreign income tax		**-**	-
Total comprehensive (loss) / income for the period		**(15,793)**	26,932
(Loss) / profit attributable to:			
Owners of the Company		**(14,890)**	27,984
Non-controlling interests		**(903)**	(1,052)
		(15,793)	26,932
Total comprehensive (loss) / income attributable to:			
Owners of the Company		**(14,890)**	27,984
Non-controlling interests		**(903)**	(1,052)
		(15,793)	26,932
(Losses) / earnings per share:			
Basic and diluted (losses) / earnings per share (SAR)	12	**(0.24)**	0.44

The notes 1 to 18 form an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the three months ended 31 March 2017
(In Thousands of Saudi Riyals, Unless Otherwise stated)

	Attributable to the owners of the Company					
	Share capital	***Statutory reserve***	***Retained earnings***	***Total shareholders' equity***	***Non-controlling interest***	***Total***
Balance at 1 January 2017	**630,000**	**140,937**	**273,257**	**1,044,194**	**12,115**	**1,056,309**
Total comprehensive income for the period						
Loss for the period	**-**	**-**	**(14,890)**	**(14,890)**	**(903)**	**(15,793)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the period	**630,000**	**140,937**	**258,367**	**1,029,304**	**11,212**	**1,040,516**
Other movement in non – controlling interest *(note 1.7)*	**-**	**-**	**-**	**-**	**13,831**	**13,831**
Balance at 31 March 2017	**630,000**	**140,937**	**258,367**	**1,029,304**	**25,043**	**1,054,347**
Balance at 1 January 2016	630,000	136,185	275,790	1,041,975	15,624	1,057,599
Total comprehensive income for the period						
Profit for the period	-	-	27,984	27,984	(1,052)	26,932
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	630,000	136,185	303,774	1,069,959	14,572	1,084,531
Transferred to statutory reserves *(Note 9)*	-	2,737	(2,737)	-	-	-
Balance at 31 March 2016	630,000	138,922	301,037	1,069,959	14,572	1,084,531

The notes 1 to 18 form an integral part of these condensed consolidated interim financial statements.

Al Hassan Ghazi Ibrahim Shaker Company
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the three months ended 31 March 2017
(In Thousands of Saudi Riyals, Unless Otherwise stated)

	Note	*31 March 2017*	*31 March 2016*
		SR	*SR*
Cash flows from operating activities:			
(Loss) / profit for the period		**(15,793)**	26,932
Adjustments for:			
Depreciation		**3,894**	3,795
Amortisation		**103**	103
Impairment losses on inventories	6	**2,590**	4,000
Impairment losses on receivables	7	**5,136**	190
Gain on sale of property and equipment		**(30)**	(271)
Share of profit of equity–accounted investees		**(15,958)**	(13,639)
Finance costs		**7,547**	7,900
Zakat and foreign income tax		**1,530**	1,901
		(10,981)	30,911
Change in:			
Inventories		**(62,565)**	(4,731)
Trade and other receivables		**(10,428)**	(87,952)
Prepayments and advances		**(4,874)**	(15,262)
Trade and other payables		**44,451**	(17,701)
Provisions and employee benefits		**(3,243)**	(1,177)
Cash generated from operating activities		**(47,640)**	(95,912)
Finance costs paid		**(8,018)**	(5,074)
Net cash used in operating activities		**(55,658)**	(100,986)
Cash flows from investing activities:			
Acquisition of property and equipment		**(795)**	(4,013)
Proceeds from sale of property and equipment		**39**	271
Net cash used in investing activities		**(756)**	(3,742)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**879,032**	932,658
Repayment of loans and borrowings		**(860,868)**	(851,270)
Other movement in non – controlling interests	1.7	**13,831**	-
Net cash from financing activities		**31,995**	81,388
Net decrease in cash and cash equivalents		**(24,419)**	(23,340)
Cash and cash equivalents at 1 January *		**51,803**	85,270
Effect of exchange rate fluctuations on cash held		**-**	-
Cash and cash equivalents at 31 March*		**27,384**	61,930

* Cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

The notes 1 to 18 form an integral part of these condensed consolidated interim financial statements.

1. REPORTING ENTITY

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 Dhul Qadah 26, 1418H (corresponding to March 25, 1998). The Company converted from a limited liability company to a closed joint stock company pursuant to the Ministerial Resolution No. 275 on Shabaan 17, 1429H (corresponding to August 18, 2008).

1.2. The Parent Company offered 10.5 million shares to public, during the subscription period from April 26, 2010 (corresponding to Jumada Awal 11, 1431H) to May 2, 2010 (corresponding to Jumada Awal 17, 1431H). The Parent Company's shares started trading in the Stock Exchange on May 17, 2010 (corresponding to Jumada 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 Group has branches which are operating under separate commercial registrations.

1.4. 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.

1.5. 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. REPORTING ENTITY (Continued)

1.6. These condensed consolidated interim financial statements include the financial position and performance of the Company and its branches as well as the following subsidiaries (collectively referred as the "Group").

Direct and indirect subsidiaries

Name	Principal field of activity	Country of incorporation	Effective ownership interest at 31 March 2017	2016
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")	Wholesale of electronic devices	Saudi Arabia	**100%**	100%
Energy Management Services Emirates LLC ("EMS") (see below)	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%

Entities fully controlled through a subsidiary - EMS

Name	Principal field of activity	Country of incorporation	Subsidiary ownership interest at 31 March 2017	2016
EMS				
Energy Management Services International ("EMSI")	Energy solution providers	Jordan	**100%**	100%
Jernain EMS Company LLC ("JECL")	Energy solution providers	United Arab Emirates	**100%**	100%

1.7. During three months ended 31 March 2017, the shareholders of NVEEAC resolved to absorb its accumulated losses of SR 34.5 million by waiving of their balances receivable from NVEEAC. Other movement in non – controlling interest of SR 13.8 million represent absorption of such losses by the minority shareholders of NVEEAC.

1.8. These condensed consolidated interim financial statements were approved by the Board of Directors on 13 Sha'ban 1438H (corresponding to 9 May 2017).

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These are the Group's first IFRS condensed consolidated interim financial statements for the part of the period covered by the first IFRS annual financial statements and IFRS 1 *First time Adoption of International Financial Reporting Standards* has been applied. These condensed consolidated interim financial statements do not include all of the information required for the full annual financial statements.

For financial periods commencing January 1, 2017, the applicable regulations require the Company to prepare and present financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA ("IFRS"). For all periods up to and including the year ended 31 December 2016, the Group prepared its financial statements in accordance with the accounting standards generally accepted accounting standards (previous GAAP) in Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA) and the requirements of the Saudi Arabian Regulations for Companies and the Company's By-laws in so far as they relate to the preparation and presentation of the financial statements.

An explanation of how the transition to IFRS's has affected the reported financial position and financial performance of the Group is provided in note 18. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previous GAAP to those reported for those periods and at the date of transitions under IFRSs.

b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for the defined benefit plan which is measured at present value of future obligations using Projected Unit Credit Method. Further, the condensed consolidated interim financial statements are prepared using the accrual basis of accounting and going concern concept.

c) Functional and presentation currency

The condensed consolidated interim financial statements are presented in Saudi Riyal ("SAR") which is the functional currency of the Parent Company, and all values are rounded to the nearest thousand except when otherwise indicated.

d) Basis of consolidation

The condensed consolidated interim financial statements comprise the financial statements of the parent company and its subsidiaries as at 31 March 2017. Subsidiaries are entities which are controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed off during the period are included in the condensed consolidated interim financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

2.1 Basis of preparation (continued)

d) Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra- group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group losses control over a subsidiary, it

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in consolidated statement of profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to consolidated statement of profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Significant accounting policies

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method when the control is transferred to the Group. The cost of an acquisition is measured as the aggregate of the consideration transferred which is measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated statement of profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* either in consolidated profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest (NCI), and any previous interest held, over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated profit or loss.

2.2 Significant accounting policies (continued)

a) Business combinations and goodwill (continued)
After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

b) Investment in associates and joint ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint controls are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.2 Significant accounting policies (continued)

c) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
  Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Group classifies all other assets as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

d) Fair value measurement

The Group measures certain financial instruments and non-financial assets at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value. For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

2.2 Significant accounting policies (continued)

d) Fair value measurement (continued)
For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments. For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

e) Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks. The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. The Group provides normal warranty provisions for general repairs for two to five years on all its products sold, in line with industry practice. A liability for potential warranty claims is recognised at the time the product is sold. The Group does not provide any extended warranties or maintenance contracts to its customers.

Rendering of services
Revenue from services is recognised as and when the services are delivered to the customer, by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Professional consultancy fees
The Group provides consultancy services for energy value analysis during the design phase of projects and developments. Revenue from consultancy services is recognised when the services have been rendered as per the terms and condition of the respective customer contracts.

Finance lease income
Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Dividends
Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

2.2 Significant accounting policies (continued)

f) Taxation

Zakat and income tax

The Parent Company and domestic subsidiaries are subject to zakat in accordance with the regulations of General Authority for Zakat and Tax ("GAZT"). Foreign subsidiaries are subject to the relevant income tax regulations in their countries of domicile. Group's zakat and its share in the foreign subsidiaries income tax are accrued and charged to the consolidated statement of profit or loss currently. Additional zakat and foreign income tax liabilities, if any, related to prior years' assessments are accounted for in the period in which the final assessments are finalized.

Withholding tax

The Group withholds taxes on transactions with non-resident parties and on dividends paid to foreign shareholders, if any, in accordance with GAZT regulations.

Taxation on foreign subsidiaries

Taxation on foreign subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate. Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the subsidiary operates.

g) Foreign currency translation

The Group's condensed consolidated interim financial statements are presented in Saudi Riyals, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Saudi riyals at the rate of exchange prevailing at the reporting date and their income statement are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation on its entirety or partially such that control, significant influence or joint control is lost, the component of OCI relating to that particular foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

2.2 Significant accounting policies (continued)

h) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Parent Company's shareholders. Dividends for the year that are approved after the consolidated statement of financial position date are disclosed as an event after the consolidated statement of financial position date.

i) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. When assets are sold or retired, i.e. when risks and rewards of ownership are transferred to the buyer, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of profit or loss. If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Land is not depreciated. Depreciation is computed on a straight-line basis to their residual values over the estimated useful lives of property and equipment as follows and is recognised in consolidated statement of profit or loss:

	Years
Buildings	40
Motor vehicles	5
Furniture and office equipment	6.67
Computer Equipment	3
Tools and equipment	5
Leasehold improvements	6.67

The useful life, residual values and depreciation method are reviewed at each reporting date and adjusted if appropriate to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property and equipment.

j) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

k) Borrowing costs

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

l) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated statement of profit or loss in the period in which the expenditure is incurred.

Licenses renewable at the end of the expiry period at little or no cost to the Group are assumed to have indefinite useful life.

2.2 Significant accounting policies (continued)

l) Intangible assets (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period, residual value and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss when the asset is derecognised.

Research and development costs
Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability and intention to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

m) Financial instruments – recognition, measurement, de-recognition and offsetting

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, financial assets available for sale, financial assets held to maturity, loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Recognition
The Group recognises a financial asset or a financial liability when the Group becomes a party to the contractual allowances of the instrument.

Measurement
Initial recognition and measurement
Management determines the appropriate classification of each instrument at initial recognition. Financial assets and liabilities are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not classified as at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

Subsequent measurement
The subsequent measurement of financial assets and liabilities depends on their classification as described below:

2.2 Significant accounting policies (continued)

m) Financial instruments – recognition, measurement, de-recognition and offsetting (continued)

Trade receivables
Trade receivables are stated at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Loans and borrowings
After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Instalments due within one year are shown as current liabilities. Interest is charged as an expense as it accrues.

Trade payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

De-recognition
A financial asset (in whole or in part) is derecognised either when:
(i) the rights to receive the cash flows from the asset have expired or
(ii) the Group has retained its right to receive cash flows from the assets but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
(iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Impairment and uncollectibility of financial assets
An assessment is made at each reporting date to determine, whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. A financial asset or a group of financial assets are impaired if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If such evidence or indication exists, any impairment loss is recognised in the statement of profit or loss.

2.2 Significant accounting policies (continued)

m) Financial instruments – recognition, measurement, de-recognition and offsetting (continued)

Impairment and uncollectibility of financial assets (continued)

Objective evidence that financial assets are impaired includes:

- Default or delinquency by a debtor;
- Restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers;
- The disappearance of an active market for a security because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of profit or loss;
b) For assets carried at cost, impairment is the difference between carrying value and the present value of `future cash flows discounted at the current market rate of return for a similar financial asset;
c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of estimated future cash flows discounted at the financial assets original effective interest rate.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Reversals of impairment losses are recognised in the statement of profit or loss to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date.

n) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition and are determined on the weighted average basis. Net realisable value is based on estimated selling price in the ordinary course of the business, less any further costs expected to be incurred on completion and disposal.

o) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of profit or loss, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

2.2 Significant accounting policies (continued)

o) Impairment of non-financial assets (continued)

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

p) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents includes cash and bank balances, deposits and other short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities up to three months from the date of acquisition and that are subject to an insignificant risk of change in value.

q) Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting expected future cash flows using a current pre-tax rate that reflects, when appropriate, current market assessments of time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost

Warranty provisions

Provisions for warranty-related costs are recognised when the product is sold or service provided to the customer. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is reviewed annually. The Group provides normal warranty provisions for general repairs for two to five years on all its products sold, in line with industry practice. A liability for potential warranty claims is recognised at the time the product is sold. The Group does not provide any extended warranties or maintenance contracts to its customers.

r) Employees end of service benefits

Provision is made for amounts payable to employees under the Saudi Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee on a going concern basis.

The Group provides end of service benefits to employees. These benefits are unfunded. The cost of providing benefits is determined using the projected unit credit method as amended by IAS 19.

2.2 Significant accounting policies (continued)

r) Employees end of service benefits (continued)

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'selling and distribution expenses' in the consolidated income statement (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

s) Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

t) Contingencies

Contingent liabilities are not recognised in the condensed consolidated interim financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the condensed consolidated interim financial statements, but are disclosed when an inflow of economic benefits is probable.

u) Finance income and finance cost

The Group's finance income and finance costs include:

finance income;
finance cost;
dividend income;
the foreign currency gains or loss on financial assets and financial liabilities;
the gain on the re-measurement to fair value of any pre-existing interest in an acquiree in a business combination;
impairment losses recognised on financial assets (other than trade receivables);
the net gain or loss on hedging instruments that are recognised in profit or loss; and
the reclassification of net gains previously recognised in OCI.

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date on which the Group's right to receive payment is established.

v) Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity accounted investees and income taxes.

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Use of estimates and judgements:
The preparation of condensed consolidated interim 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.

Judgements:
Information about judgements made in applying accounting policies that have the most significant effects on the amount recognized in the condensed consolidated interim financial statements is included in the following notes:

- Note 1.6 - consolidation: whether the Group has de facto control over an investee.

Estimation uncertainty and assumptions:
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of inventories (note 6)
Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts 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.

Impairment of trade and other receivables (note 7)
An estimate of the collectible amount of trade accounts receivable and retentions is made when collection of part of or the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually 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.

Fair values of assets and liabilities, including intangibles
Considerable judgement by management is required in the estimation of the fair value of the assets including intangibles with definite and indefinite useful life, liabilities and contingent liabilities acquired as a result of business combination.

Impairment of non-financial assets (note 4 & 5)
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

Warranty
Provisions for warranty is recorded based on an estimate and the actual cost and timing of future cash flows are dependent on future events. The difference between expectation and the actual future liability is accounted for in the period when such determination is made.

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimation uncertainty and assumptions: (continued)

Customer rebates
Accounting for the amount and timing of recognition of customer rebate require the exercise of judgement. The rebate relates to the customers for achieving agreed purchase or sales targets within a set period. Where rebate span different accounting periods, the amount recognised in each period is estimated based on the probability that the customers will meet contractual target volumes based on historical and forecast performance.

Employee benefits (note 11)
The cost of end of service benefit plans and the present value of end of service benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Fair value measurement of financial instruments (note 15)
Where the fair value of financial assets recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for specific countries. There are no publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates and the management outlook for the respective country.

4 INTANGIBLE ASSETS AND GOODWILL

	31 March 2017 SR	*31 December 2016 SR*	*1 January 2016 SR*
- Intangible asset *(Note 18)* Energy Management Services Emirates LLC	**3,198**	3,301	3,714
- *Goodwill (Note 4.1)* ASDAA Gulf Trading Company (ASDAA)	**9,854**	9,854	9,854
	13,052	13,155	13,568

4.1 Effective November 12, 2014, HGISC acquired effectively 100% shareholding in ASDAA 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 recorded as goodwill. The goodwill has not been tested for impairment as there were no impairment indicators as at 31 March 2017.

5 EQUITY ACCOUNTED INVESTEES

The details of the Group's associates are as follows:

Name of Company	*Principal activities*	*Country of incorporation*	*Effective interest at*	
			31 March 2017	*31 December 2016*
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%

Investments in equity accounted investees are as follows:

	31 March 2017 SR	*31 December 2016 SR*	*1 January 2016 SR*
LG Shaker *(Note 5.1)*	**589,741**	573,633	551,134
SEALCO	**3,775**	3,925	4,325
	593,516	577,558	555,459

Reconciliations for the equity accounted investees are as follows:

	LG Shaker SR	***SEALCO SR***	***Total SR***
At 1 January 2017	**573,633**	**3,925**	**577,558**
Share of profit / (loss) for the period	**16,108**	**(150)**	**15,958**
At 31 March 2017	**589,741**	**3,775**	**593,516**

	LG Shaker SR	*SEALCO SR*	*Total SR*
At 1 January 2016	551,134	4,325	555,459
Share of profit / (loss) for the year	22,499	(400)	22,099
At 31 December 2016	573,633	3,925	577,558

5 EQUITY ACCOUNTED INVESTEES (continued)

5.1 The following table summarises the financial information of a material associate - LG Shaker as included in its own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in the associate.

LG Shaker is a mixed limited liability company registered in KSA under the commercial registration number 1010226606 Dated 4 Dhul Hijjah 1427 H (25 December 2006). The main activity of the Company is to manufacture various types of air conditioners.

Balance as at:	***31 March 2017 SR***	*31 December 2016 SR*
Non-current assets	**140,017**	144,578
Current assets	**578,819**	480,814
Non-current liabilities	**(5,461)**	(4,989)
Current liabilities	**(132,830)**	(75,595)
Net assets	**580,545**	544,808
Group's share of net assets	**277,757**	261,649
Goodwill	**311,984**	311,984
Carrying amount of interest in associate	**589,741**	573,633

	31 March 2017 SR	*31 December 2016 SR*
Revenue	**201,474**	531,002
Total comprehensive income	**35,737**	65,332
Group share of total comprehensive income	**16,108**	22,499

The recoverable amount of this equity-accounted investee was based on fair value less costs of disposal, estimated using discounted cash flows.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

	2016
Discount rate	14%
Terminal value growth rate	2.20%
Budgeted EBITDA growth rate (average of next five years)	14%

The management of the Group has assessed in detail the carrying value of LG Shaker as at 31 December 2016. The detailed assumptions are considered to be the same as at 31 March 2017. Also as at 31 March 2017, there are no indications that the carrying value of this associate is impaired.

6 INVENTORIES

	31 March 2017 SR	*31 December 2016 SR*	*1 January 2016 SR*
Finished goods	**658,398**	588,913	852,500
Spare parts	**88,678**	91,726	85,363
Goods in transit	**9,901**	13,773	8,155
	756,977	694,412	946,018
Impairment losses on inventories	**(11,658)**	(9,068)	(10,525)
	745,319	685,344	935,493

Reconciliation of the impairment losses on inventories is as follow:

	31 March 2017 SR	*31 December 2016 SR*
Balance at beginning of period / year	**9,068**	10,525
Charge for the period / year	**2,590**	5,712
Utilised during the period / year	-	(7,169)
Balance at end of period / year	**11,658**	9,068

a) At 31 March 2017, the Group has outstanding bank guarantees of SR 71.8 million (31 December 2016: SR 65.8 million) issued by the local and foreign banks in respect of import of finished goods and other supplies.

b) At 31 March 2017, the Group has outstanding bank letter of credits of SR 71.6 million (31 December 2016: SR 29.2 million) issued against import of finished goods and other supplies.

7 TRADE AND OTHER RECEIVABLES

	31 March 2017 SR	*31 December 2016 SR*	*1 January 2016 SR*
Trade receivables	**767,651**	763,065	504,287
Other receivables:			
Advertisement claims from suppliers	**23,860**	20,567	32,750
Custom duty deposit	**5,956**	5,956	5,956
Amount due from related parties (note 16)	**151**	151	151
Non trade receivables	**9,126**	9,789	19,057
Impairment losses on receivables	**(35,941)**	(34,017)	(29,973)
	770,803	765,511	532,228
Non-current	**15,489**	13,557	13,011
Current	**755,314**	751,954	519,217
	770,803	765,511	532,228

7 TRADE AND OTHER RECEIVABLES (continued)

Reconciliation of impairment losses on receivables is as follow:

	31 March 2017 SR	*31 December 2016 SR*
Balance at beginning of period / year	**34,017**	29,973
Charge for the period / year	**5,136**	4,114
Utilised during the period / year	**(3,212)**	(70)
Balance at end of period / year	**35,941**	34,017

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 reporting date. This is based on historical pattern behaviour and extensive analysis of customer's credit risk, including underlying customer's credit ratings if they are available. Accordingly, management believes that there is no further credit allowance required in excess of the provision for impairment of receivables.

8 SHARE CAPITAL

	31 March 2017 SR	*31 December 2016 SR*	*1 January 2016 SR*
Authorised share capital (shares of SR 10 each)	**630,000**	630,000	630,000
Issued and fully paid up capital (shares of SR 10 each)	**630,000**	630,000	630,000

At 31 March 2017, the authorized, issued and paid up share capital of the Company is SR 630 million consisting of 63 million shares of SR 10 each.

9 STATUTORY RESERVES

In accordance with the Company's Bylaws and the previous Saudi Arabian Regulations for Companies, the Company sets aside 10% of its net income in each year to a statutory reserve until such reserve equals to 50% of the share capital. The new Saudi Arabian Regulations for Companies issued on 25 Rajab 1437H (corresponding to May 2, 2016) requires companies to set aside 10% of its net income in each year to a statutory reserve until such reserve reaches 30% of the share capital. Subsequent to the current reporting date, the Company has completed legal formalities with regard to the amendment of its Bylaws. This reserve is currently not available for distribution to the shareholders of the Company. Due to the loss making position for the three months ended 31 March 2017, no such transfer was required as at the current reporting date.

10 LOANS AND BORROWINGS

The Group has credit facility agreements with local and foreign commercial banks for long and short term loans and borrowings in Saudi Riyal, United Arab Emirates Dirham and Jordanian Dinar. Such facilities were obtained principally under Murabaha / Tawarruq arrangements. The utilised portion of the long term facilities are repayable on equal monthly instalments. The facility agreements are secured by promissory notes and corporate and personal guarantees from the shareholders of the Group. The facilities bear financial charges on prevailing market rates.

10 LOANS AND BORROWINGS (continued)

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

	31 March 2017 SR	*31 December 2016 SR*	*1 January 2016 SR*
Current:			
Bank overdraft	**3,074**	2,815	-
Bank loans	**761,899**	774,901	673,416
Notes payable	**36,471**	-	-
	801,444	777,716	673,416
Non-current:			
Bank loans	**32,577**	37,882	56,505
	32,577	37,882	56,505

The following bank loans are outstanding as at 31 March 2017:

	Currency	**Nominal interest rate**	**Year of maturity**	**Face value SR**	**Carrying amount SR**
Kingdom of Saudi Arabia	SAR	2.6%-4.16% per annum	2017-2019	688,500	**670,942**
	USD	2.7% - 2.8% per annum	2017	86,273	**86,273**
United Arab Emirates	AED	1 month EIBOR + 4% per annum (minimum of 4.5%)	2018 - 2021	17,341	**14,970**
Jordan	JD	9.75% per annum	2017	15,869	**4,298**
	USD	LIBOR + 2.95% per annum	2017	93,750	**54,464**
					830,947

Reconciliation of bank loans and notes payable are as follows:

Balance as at 1 January 2017	**812,783**
Proceeds	
Kingdom of Saudi Arabia	**868,215**
United Arab Emirates	**-**
Jordan	**10,817**
	879,032
Repayments	
Kingdom of Saudi Arabia	**(841,190)**
United Arab Emirates	**(593)**
Jordan	**(19,085)**
	(860,868)
Balance as at 31 March 2017	**830,947**

11 EMPLOYEE BENEFITS

	31 March 2017 SR	*31 December 2016 SR*	*1 January 2016 SR*
Net defined benefit liability	**41,570**	43,232	44,696
	41,570	43,232	44,696

The Group operates an approved unfunded employees' end of service benefits plan ("EOSB") for its employees as required by the local Labor Law.

- In Kingdom of Saudi Arabia (KSA), the plan entitles an employee who completed over two but less than five years of service, to receive a payment equal to one-third of their final salary for each completed year of service. Similarly, an employee who completed over five but less than ten years of service, to receive a payment equal to two-third of their final salary for each completed year of service. Further, an employee who completed over ten years of service, to receive a payment equal to their final salary for each completed year of service.
- In United Arab Emirates (UAE), the plan entitles a employee who completed over one year but less than three years of service, to receive a payment equal to one-third of their final salary for each completed year of service. Similarly, an employee who completed over three years but less than five years of service, to receive a payment equal to two-thirds of their final salary for each completed year of service. Further, an employee who completed over five years of service, to receive a payment equal to their final salary for each completed year of service.

Reconciliation in employees end of service benefits is as follow;

	31 March 2017 SR	*31 December 2016 SR*
Balance at beginning of period / year	**43,232**	44,696
Included in Profit and Loss		
Current service cost	**1,153**	10,345
Interest cost	**418**	1,788
	1,571	12,133
Included in Other comprehensive income		
Actuarial (gain) / loss	-	(652)
Benefit paid	(3,233)	(12,945)
Balance at end of period / year	41,570	43,232
Represented by:		
Net defined benefit liability for plans in:		
- Kingdom of Saudi Arabia	**39,445**	41,148
- United Arab Emirates	**2,125**	2,084
	41,570	43,232

11 EMPLOYEE BENEFITS (continued)

Actuarial assumptions

The following are the principal actuarial assumptions applied at 31 March 2017 and 31 December 2016:

	KSA	**UAE**
Discount rate	4.00% p.a	4.00% p.a
Salary increase	1.50% p.a	3.00% p.a
Average years of past service	6.5 years	7.65 years

Sensitivity analysis

	31 March 2017		31 December 2016	
Particulars	**PVDBO**	**% Change**	PVDBO	% Change
EOSB liability	**41,570**		43,232	
+1% Discount rate	**(1,302)**	**-3.13%**	(1,317)	-3.05%
-1% Discount rate	**1,322**	**3.18%**	1,413	3.27%
+1% Salary increase rate	**1,502**	**3.61%**	1,597	3.69%
1% Salary increase rate	**(1,493)**	**-3.59%**	(1,515)	-3.50%
+10% Withdrawals rate	**(64)**	**-0.15%**	(31)	-0.07%
-10% Withdrawals rate	**(21)**	**-0.05%**	14	0.03%
1 Year mortality age set back	**(37)**	**-0.09%**	(2)	0.00%
1 Year mortality age set forward	**(33)**	**-0.08%**	2	0.00%

PVDBO: Present value of defined benefit obligations

12 BASIC AND DILUTED (LOSSES) / EARNINGS PER SHARE

Basic and diluted (losses) / earnings per share amounts are calculated by dividing the profit for the three months attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, as follows:

	31 March 2017 SR	*31 March 2016 SR*
(Loss) / profit attributable to ordinary shareholders	**(14,890)**	27,984
	Shares	*Shares*
Weighted average number of ordinary shares outstanding during the period	**63,000**	63,000
Basic and diluted (losses) / earnings per share	**(0.24)**	0.44

13 OPERATING SEGMENTS

For management purposes, the Group is organized into three main business segments based on internal reporting provided to the chief operating decision maker:

Heating, ventilation and air-conditioning solutions (HVAC): Represents residential and commercial air conditioners including chillers and related services.

Home appliances: Represents televisions, washing machines, dryers, refrigerators, irons, gas cookers, and floor care.

All others segments represents energy solutions and mobiles.

The Executive Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessments. Segment performance is evaluated based on profit or loss and its measured consistently with profit of loss in the consolidated financial statements.

Transfer prices between operating segments are on arm's length basis in a manner similar to transactions with third parties.

	HVAC solutions SR	*Home appliances SR*	*Total reportable segments SR*	*All other segments SR*	*Adjustments and eliminations SR*	***Total SR***
As at 31 March 2017						
Assets and liabilities:						
Segment assets	**1,986,387**	**545,656**	**2,532,043**	**42,389**	**(129,267)**	**2,445,165**
Segment liabilities	**1,275,497**	**211,401**	**1,486,898**	**33,187**	**(129,267)**	**1,390,818**
For the three month ended 31 March 2017						
Segment revenues	**198,402**	**91,187**	**289,589**	**2,729**	**-**	**292,318**
Segments profit / (loss) before zakat and foreign income tax	**(13,675)**	**413**	**(13,262)**	**(1,001)**	**-**	**(14,263)**

(In Thousands of Saudi Riyals, Unless Otherwise stated)

13 OPERATING SEGMENTS (continued)

	HVAC solutions SR	*Home appliances SR*	*Total reportable segments SR*	*All other segments SR*	*Adjustments and eliminations SR*	*Total SR*
As at 31 December 2016						
Assets and liabilities:						
Segment assets	1,939,238	539,513	2,478,751	30,187	(122,501)	2,386,437
Segment liabilities	1,178,266	240,152	1,418,418	34,211	(122,501)	1,330,128
For the three months ended 31 March 2016						
Segment revenues	273,045	118,396	391,441	3,629	-	395,070
Segments profit / (loss) before zakat and foreign income tax	21,402	8,606	30,008	(1,175)	-	28,833

More than 90% of the Group's revenue and 92% of the Group's total assets are based in Kingdom of Saudi Arabia.

14 SEASONALITY OF OPERATIONS

The group's HVAC solutions segments is subject to seasonal fluctuation as a result of weather conditions. In particular, the sale of air conditioners in key geographic areas are affected by winter weather conditions, which occur primarily during October to March. The group attempts to minimize the seasonal impact by managing inventories to meet demand during this period.

For the 12 months ended 31 March 2017, the HVAC solutions segment reported revenue of SR 1,202 million (for 12 months ended 31 March 2016: SR 1,468 million) and net loss of SR 7.7 million (net profit for 12 months ended 31 March 2016: SR 109 million).

(In Thousands of Saudi Riyals, Unless Otherwise stated)

15 FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities including their levels in the fair value hierarchy for financial instruments measured at fair values. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount		**Fair Value**			
	Non-current assets	**Current assets**	**Level 1**	**Level 2**	**Level 3**	**Total**
31 March 2017						
Financial assets not measured at fair value						
Trade and other receivables	**15,489**	**749,358**	-	-	-	-
Cash and cash equivalents	--	**30,458**	-	-	-	-
Total	15,489	779,816	-	-	-	-

	Carrying amount		Fair Value			
	Non-current assets	Current assets	Level 1	Level 2	Level 3	Total
31 December 2016						
Financial assets not measured at fair value						
Trade and other receivables	13,557	745,998	-	-	-	-
Cash and cash equivalents	-	54,618	-	-	-	-
Total	13,557	800,616	-	-	-	-

	Carrying amount		**Fair Value**			
	Non-current liabilities	**Current liabilities**	**Level 1**	**Level 2**	**Level 3**	**Total**
31 March 2017						
Financial liabilities not measured at fair value						
Loans and borrowings	**32,577**	**798,370**	-	-	-	-
Trade and other payables	--	**447,860**	-	-	-	-
Bank overdrafts	--	**3,074**	-	-	-	-
Total	32,577	**1,249,304**	-	-	-	-

	Carrying amount		Fair Value			
	Non-current liabilities	Current liabilities	Level 1	Level 2	Level 3	Total
31 December 2016						
Financial liabilities not measured at fair value						
Loans and borrowings	37,882	774,901	-	-	-	-
Trade and other payables	-	420,942	-	-	-	-
Bank overdrafts	-	2,815	-	-	-	-
Total	37,882	1,198,658	-	-	-	-

(In Thousands of Saudi Riyals, Unless Otherwise stated)

16 RELATED PARTY TRANSACTIONS

Significant balances and transactions with related parties included in the condensed consolidated interim financial statements are as follows:

a) Due from related parties – under trade and other receivables:

Name	Relationship	Nature of Transaction	Amount of Transaction		Closing Balance	
			31 March 2017	31 March 2016	31 March 2017	31 December 2016
SEALCO	Associate	Expense paid on behalf of company	--	--	**151**	151
					151	151

b) Due to related parties – under trade and other payables:

Name	Relationship	Nature of Transaction	Amount of Transaction		Closing Balance	
			31 March 2017	31 March 2016	**31 March 2017**	31 December 2016
LG Shaker	Associate	Purchase of finished goods	**201,089**	213,613	**365,957**	244,857
LG Electronics (Levant)	Associate	Purchase of finished goods	**11,843**	30,628	**3,595**	2,819
Board of Directors	Key management	Remuneration and meeting attendance fee	**1,177**	320	**483**	2,028
Subsidiary shareholder – NVEEAC	Key management	Advances	**13,831**	395	**6,475**	20,358
Subsidiary shareholder – EMS	Key Management	Advances	**77**	220	**888**	821
					377,398	270,883

17 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards applicable to the entity are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these interim financial statements.

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

i. Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

ii. Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. The Group may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and without a significant financing component; the Group may choose to apply this policy also for trade receivables and with a significant financing component.

iii. Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of change in the fair value is presented in profit or loss.

17 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments (continued)

iv. Hedge accounting

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group's current plan is that it will elect to apply the new requirements of IFRS 9.

IFRS 9 will require the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements regarding rebalancing of hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting.

Under IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affect profit or loss. However, under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast non-financial asset purchases, the amounts accumulated in the cash flow hedge reserve and the cost of hedging reserve will instead be included directly in the initial cost of the non-financial asset when it is recognised.

v. Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses.

vi. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2018.
- New hedge accounting requirements should generally be applied prospectively. However, the Group may elect to apply the expected change in accounting for forward points retrospectively.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. The new standard is currently not expected to have a significant impact on the Group's revenue recognition policy.

17 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

i. Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

ii. Transition

As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group currently plans to apply IFRS 16 initially on 1 January 2019. The Group has not yet determined which transition approach to apply.

As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

Other amendments

The following new or amended standards are currently not expected to have a significant impact on the Group's interim financial statements.

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4).
- Transfers of Investment Property (Amendments to IAS 40).
- Annual Improvements to IFRSs 2014–2016 Cycle – various standards (Amendments to IFRS 1 and IAS 28).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

18 FIRST TIME ADOPTION OF IFRS

As stated in note 2, these are the Group's first condensed consolidated interim financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 2 have been applied in preparing the condensed consolidated interim financial statements for the three months ended 31 March 2017, the comparative information presented in these financial statements for the three months ended 31 March 2016 and year ended 31 December 2016 and in the preparation of an opening IFRS statement of financial position at 1 January 2016 (the Group's date of transition).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous GAAP. An explanation of how the transition from previous GAAP to IFRSs has affected the Group's financial position and financial performance is set out in reconciliations below.

Exemptions applied
IFRS 1 First-Time Adoption of International Financial Reporting Standards allows first-time adopters certain exemptions from the retrospective application of certain IFRS. The Group has applied the following exemptions:

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

a) IFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries, which are considered businesses for IFRS, or of interests in associates that occurred before 1 January 2015. Use of this exemption means that the previous GAAP carrying amounts of assets and liabilities, which are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.

   However, the Group has applied IFRS 3 to its acquisitions of subsidiaries from 1 January 2015. As a result acquisition of one of the subsidiaries of the Group (EMS) has been amended to confirm to the requirements of IFRS. The adjustments made are reflected in the Group's reconciliation of statement of financial position as at 1 January 2016, 31 March 2016 and 31 December 2016.

b) The Group has not applied IAS 21 retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to IFRS. Such fair value adjustments and goodwill are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are already expressed in the functional currency of the parent or are non-monetary foreign currency items and no further translation differences occur.

c) The Group has applied the transitional provisions in IFRIC 4 -"Determining whether an Arrangement Contains a Lease "and has assessed all arrangements based upon the conditions in place as at the date of transition to determine if they contain lease.

d) The Group has applied the transitional provisions in IAS 23- "Borrowing Costs" and capitalises borrowing costs relating to all qualifying assets after the date of transition. Similarly, the Group has not restated borrowing costs capitalised under SOCPA on qualifying assets prior to the date of transition to IFRS. No amount has been capitalised in the current period.

e) The Group has elected to disclose the following amounts prospectively from the date of transition (IFRS ordinarily requires the amounts for the current and previous four annual periods to be disclosed): (i) the present value of the end of service obligation, the fair value of the plan assets and the surplus or deficit in the plan; and (ii) the experience adjustments arising on the plan liabilities and the plan assets.

18 FIRST TIME ADOPTION OF IFRS (continued)

f) No items of property and equipment have been measured at fair value at the date of transition to IFRS.

g) Cumulative currency translation differences for all foreign operations are deemed to be immaterial to the overall financial statements as at 1 January 2016.

Estimates
The estimates at 1 January 2016 and at 31 March 2016 are consistent with those made for the same dates in accordance with previous GAAP (after adjustments to reflect any differences in accounting policies) apart from Post-employment benefits where application of previous GAAP did not require estimation.

The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 January 2016, the date of transition to IFRS and as of 31 March 2016.

18 FIRST TIME ADOPTION OF IFRS (continued)
Reconciliation of Equity

		1 January 2016			31 March 2016			31 December 2016		
	Note	*Previous GAAP*	*Effect of transition to IFRS*	*IFRSs*	*Previous GAAP*	*Effect of transition to IFRS*	*IFRSs*	*Previous GAAP*	*Effect of transition to IFRS*	*IFRSs*
Assets										
Property and equipment	18.3	258,311	-	258,311	258,704	(175)	258,529	257,025	(700)	256,325
Intangible assets and goodwill	18.1	25,699	(12,131)	13,568	25,699	(12,234)	13,465	25,699	(12,544)	13,155
Trade and other receivables		13,011	-	13,011	13,130	-	13,130	13,557	-	13,557
Equity-accounted investees		555,459	-	555,459	569,098	-	569,098	577,558	-	577,558
Non-current asset		**852,480**	**(12,131)**	**840,349**	**866,631**	**(12,409)**	**854,222**	**873,839**	**(13,244)**	**860,595**
Inventories		935,493	-	935,493	936,224	-	936,224	685,344	-	685,344
Trade and other receivables		519,217	-	519,217	606,860	-	606,860	751,954	-	751,954
Prepayments and advances		38,651	-	38,651	53,913	-	53,913	33,926	-	33,926
Cash and cash equivalents		85,270	-	85,270	62,475	-	62,475	54,618	-	54,618
Current asset		**1,578,631**	**-**	**1,578,631**	**1,659,472**	**-**	**1,659,472**	**1,525,842**	**-**	**1,525,842**
Total Assets		**2,431,111**	**(12,131)**	**2,418,980**	**2,526,103**	**(12,409)**	**2,513,694**	**2,399,681**	**(13,244)**	**2,386,437**

18 FIRST TIME ADOPTION OF IFRS (continued)

Reconciliation of Equity

	Note	1 January 2016			31 March 2016			31 December 2016		
		Previous GAAP	*Effect of transition to IFRS*	*IFRSs*	*Previous GAAP*	*Effect of transition to IFRS*	*IFRSs*	*Previous GAAP*	*Effect of transition to IFRS*	*IFRSs*
Equity										
Share capital		630,000	-	630,000	630,000	-	630,000	630,000	-	630,000
Statutory reserves		136,185	-	136,185	138,922	-	138,922	140,937	-	140,937
Retained earnings		285,765	(9,975)	275,790	310,399	(9,362)	301,037	281,287	(8,030)	273,257
Equity attributable to owners of the Company		**1,051,950**	**(9,975)**	**1,041,975**	**1,079,321**	**(9,362)**	**1,069,959**	**1,052,224**	**(8,030)**	**1,044,194**
Non-controlling interest	18.1 & 18.2	22,663	(7,039)	15,624	21,569	(6,997)	14,572	19,121	(7,006)	12,115
Total equity		**1,074,613**	**(17,014)**	**1,057,599**	**1,100,890**	**(16,359)**	**1,084,531**	**1,071,345**	**(15,036)**	**1,056,309**
Liabilities										
Loans and borrowings		56,505	-	56,505	53,667	-	53,667	37,882	-	37,882
Employee benefits	18.2	39,813	4,883	44,696	40,477	3,950	44,427	41,440	1,792	43,232
Total non-current liabilities		**96,318**	**4,883**	**101,201**	**94,144**	**3,950**	**98,094**	**79,322**	**1,792**	**81,114**
Loans and borrowings		673,416	-	673,416	758,187	-	758,187	777,716	-	777,716
Trade and other payables		542,107	-	542,107	527,232	-	527,232	436,123	-	436,123
Zakat and foreign income tax liabilities		17,586	-	17,586	19,487	-	19,487	15,918	-	15,918
Provisions		27,071	-	27,071	26,163	-	26,163	19,257	-	19,257
Total current liabilities		**1,260,180**	**-**	**1,260,180**	**1,331,069**	**-**	**1,331,069**	**1,249,014**	**-**	**1,249,014**
Total liabilities		**1,356,498**	**4,883**	**1,361,381**	**1,425,213**	**3,950**	**1,429,163**	**1,328,336**	**1,792**	**1,330,128**
Total equity and liabilities		**2,431,111**	**(12,131)**	**2,418,980**	**2,526,103**	**(12,409)**	**2,513,694**	**2,399,681**	**(13,244)**	**2,386,437**

18 FIRST TIME ADOPTION OF IFRS (continued)

Reconciliation of statement of profit and loss and other comprehensive income for three months ended 31 March 2016

	Note	*Previous GAAP*	*Effect of transition to IFRS 31 March 2016*	*IFRS*
Revenue		395,070	-	**395,070**
Cost of sale		(296,411)	-	**(296,411)**
Gross profit		98,659	-	**98,659**
Other income		652	-	**652**
Selling and distribution expenses	18.2	(42,137)	653	**(41,484)**
Administrative expenses	18.1, 18.2 & 18.3	(34,545)	2	**(34,543)**
Other expenses		(190)	-	**(190)**
Operating profit		22,439	655	**23,094**
Finance cost		(7,900)	-	**(7,900)**
Share of profit of equity – accounted investees		13,639	-	**13,639**
Profit before zakat and foreign income tax		28,178	655	**28,833**
Zakat and foreign income tax expense		(1,901)	-	**(1,901)**
Profit for the period		26,277	655	**26,932**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurement of employee benefits		-	-	-
Other comprehensive income for the period, net of zakat and foreign income tax		-	-	-
Total comprehensive income for the period		26,277	655	**26,932**
Profit attributable to:				
Owners of the company		27,371		**27,984**
Non-controlling interests	18.2	(1,094)	42	**(1,052)**
		26,277		**26,932**
Total comprehensive income attributable to:				
Owners of the Company		27,371		**27,984**
Non-controlling interests	18.2	(1,094)	42	**(1,052)**
		26,277		**26,932**
Earnings per share:				
Basic and diluted earnings per share (SAR)		0.43		**0.44**

18 FIRST TIME ADOPTION OF IFRS (continued)

Reconciliation of statement of profit and loss and other comprehensive income for year ended 31 December 2016

	Note	*Previous GAAP*	*Effect of transition to IFRS 31 Dec 2016*	*IFRS*
Revenue		1,642,753	-	**1,642,753**
Cost of sale		(1,244,789)	-	**(1,244,789)**
Gross profit		397,964	-	**397,964**
Other income		7,644	-	**7,644**
Selling and distribution expenses	18.2	(192,281)	1,707	**(190,574)**
Administrative expenses	18.1, 18.2 & 18.3	(151,822)	(381)	**(152,203)**
Other expenses		(4,114)	-	**(4,114)**
Operating profit		57,391	1,326	**58,717**
Finance cost		(30,298)	-	**(30,298)**
Share of profit of equity – accounted investees		22,099	-	**22,099**
Profit before zakat and foreign income tax		49,192	1,326	**50,518**
Zakat and foreign income tax expense		(5,210)	-	(5,210)
Profit for the year		43,982	1,326	**45,308**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurement of employee benefits	18.2	-	652	**652**
Other comprehensive income for the year, net of zakat and foreign income tax		-	652	**652**
Total comprehensive income for the period		43,982	1,978	**45,960**
Profit attributable to:				
Owners of the Company		47,524		**48,817**
Non-controlling interests	18.2	(3,542)	33	**(3,509)**
		43,982		**45,308**
Total comprehensive income attributable to:				
Owners of the Company		47,524		**49,469**
Non-controlling interests	18.2	(3,542)	33	**(3,509)**
		43,982		**45,960**
Earnings per share:				
Basic and diluted earnings per share (SAR)		0.75		**0.79**

18 FIRST-TIME ADOPTION OF IFRS (continued)

Notes to the reconciliations

18.1 Intangible asset

As explained in note 18 a), the Group has applied IFRS to its acquisitions of subsidiaries from 1 January 2015. As a result, reversal of goodwill of SR 16 million, and recognition of intangible asset of SR 4 million were recorded under the acquisition accounting as per IFRS. The impact arising from the change is summarised as follows:

	1 January 2016 SR	*31 March 2016 SR*	*31 December 2016 SR*
Condensed consolidated statement of profit or loss			
Administrative expenses		(103)	(413)
		(103)	(413)
Condensed consolidated statement of financial position			
Goodwill	(15,845)	(15,845)	(15,845)
Intangible assets	3,714	3,611	3,301
Non-controlling interests	7,086	7,086	7,086
Adjustments to retained earnings	(5,045)	(5,148)	(5,458)

18.2 Employee benefit

Under its previous GAAP, the employee's end of service of liability was calculated at the current value of the vested benefits to which the employees is entitled, should his service be terminated at the balance sheet date. Under IFRS the obligation is determined using the projected unit credit method, and actuarial valuations are obtained at each year end.

The impact arising from the change is summarised as follows:

	1 January 2016 SR	*31 March 2016 SR*	*31 December 2016 SR*
Condensed consolidated statement of profit or loss			
Selling and distribution expenses		653	1,707
Administrative expenses		280	732
		933	2,439
Condensed consolidated statement of financial position			
Employee benefits	(4,883)	(3,950)	(1,792)
Non-controlling interests	(47)	(89)	(80)
Adjustments to retained earnings	(4,930)	(4,039)	(1,872)

18.3 Other adjustment resulting from conversion

Other adjustment relates to the componentization of certain property and equipment related items which has reduced the profits for three months ended 31 March 2016 by SR 0.2 million, and profits for the year ended 31 December 2016 by SR 0.7 million.