

**Fawaz Abdulaziz Al Hokair & Co.
and its subsidiaries
(A Saudi Joint Stock Company)**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR YEAR ENDED 31 MARCH 2016

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**AUDITORS' REPORT TO THE SHAREHOLDERS
OF FAWAZ ABDULAZIZ AL HOKAIR & CO.
(A SAUDI JOINT STOCK COMPANY)**

Scope of audit

We have audited the accompanying consolidated balance sheet of Fawaz Abdulaziz Al Hokair & Co. - A Saudi Joint Stock Company (the "Company") and its subsidiaries (the "Group") as at 31 March 2016 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

In our opinion, the consolidated financial statements taken as a whole:

- i. present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2016 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii. comply with the requirements of the Regulations for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young



Abdulaziz A. Al-Sowailim
Certified Public Accountant
Registration No. 277



Riyadh: 24 Sha'aban 1437H
(31 May 2016)

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As at 31 March 2016

| | Note | 2016 SR | 2015 SR |
|---|------|----------------------|----------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | | |
| Trade receivables, prepayments and other assets | 4 | 296,858,268 | 279,957,636 |
| Amounts due from related parties | 5 | 907,730,490 | 882,333,590 |
| Inventories | 6 | 404,196,471 | 281,728,504 |
| | 7 | 2,245,709,544 | 2,056,957,270 |
| TOTAL CURRENT ASSETS | | 3,854,494,773 | 3,500,977,000 |
| NON-CURRENT ASSETS | | | |
| Investments in associates and others | 8 | 318,288,854 | 318,467,050 |
| Property and equipment | 9 | 2,328,007,521 | 2,006,281,886 |
| Intangible assets – goodwill | 10 | 804,560,265 | 798,743,156 |
| Other intangible assets | 11 | 166,086,705 | 145,155,772 |
| TOTAL NON-CURRENT ASSETS | | 3,616,943,345 | 3,268,647,864 |
| TOTAL ASSETS | | 7,471,438,118 | 6,769,624,864 |
| LIABILITIES AND EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Short-term Murabaha financing and loans | 13 | 1,093,542,171 | 833,290,230 |
| Current portion of long-term funding | 14 | 431,937,994 | 195,587,581 |
| Trade accounts payables | | 591,169,451 | 570,495,843 |
| Accrued expenses and other payables | 15 | 554,395,194 | 509,983,725 |
| Amount due to an affiliate | 6 | 3,802,011 | 1,168,221 |
| TOTAL CURRENT LIABILITIES | | 2,674,846,821 | 2,110,525,600 |
| NON-CURRENT LIABILITIES | | | |
| Long-term funding | 14 | 2,102,087,024 | 2,163,460,629 |
| End-of-service indemnities | | 88,936,168 | 78,756,624 |
| TOTAL NON-CURRENT LIABILITIES | | 2,191,023,192 | 2,242,217,253 |
| TOTAL LIABILITIES | | 4,865,870,013 | 4,352,742,853 |
| EQUITY | | | |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 17 | 2,100,000,000 | 2,100,000,000 |
| Statutory reserve | 18-a | 141,875,641 | 80,295,155 |
| Foreign currency translation reserve | 18-b | (425,675,840) | (228,569,465) |
| Retained earnings | | 791,944,543 | 447,720,167 |
| TOTAL SHAREHOLDERS' EQUITY | | 2,608,144,344 | 2,399,445,857 |
| NON-CONTROLLING INTERESTS | | (2,576,239) | 17,436,154 |
| TOTAL EQUITY | | 2,605,568,105 | 2,416,882,011 |
| TOTAL LIABILITIES AND EQUITY | | 7,471,438,118 | 6,769,624,864 |

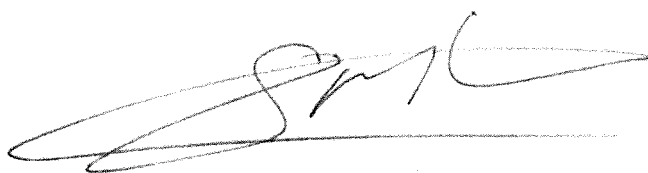
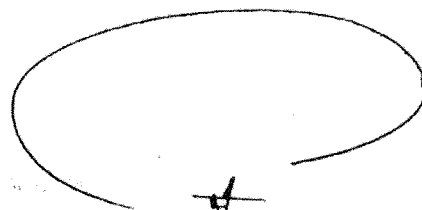
The accompanying notes 1 to 29 form an integral part of these consolidated financial statements



Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 March 2016

| | Note | 2016 SR | 2015 SR |
|---|---------|----------------------------------|----------------------------------|
| Sales | | | |
| Direct costs | | 7,276,977,379 (5,543,726,743) | 6,898,673,324 (5,111,496,492) |
| GROSS PROFIT | | 1,733,250,636 | 1,787,176,832 |
| Selling and marketing expenses | 20 | (331,582,057) | (301,366,415) |
| General and administrative expenses | 21 | (335,964,202) | (346,240,475) |
| Depreciation and amortization | | (334,560,530) | (288,908,161) |
| Store closure losses | | (61,395,970) | (4,808,265) |
| INCOME FROM MAIN OPERATIONS | | 669,747,877 | 845,853,516 |
| Share in earnings of associates, net | 8 | 1,123,105 | 31,460,690 |
| Financing charges | 13 & 14 | (121,574,155) | (100,107,335) |
| Other income, net | 22 | 56,122,028 | 54,817,844 |
| INCOME BEFORE ZAKAT AND INCOME TAX AND NON-CONTROLLING INTERESTS | | 605,418,855 | 832,024,715 |
| Zakat and income tax charge, net of deferred tax | 16 | 7,197,135 | (19,707,110) |
| INCOME BEFORE NON-CONTROLLING INTERESTS | | 612,615,990 | 812,317,605 |
| Non-controlling interests | | 3,188,872 | (9,366,055) |
| NET INCOME FOR THE YEAR | | 615,804,862 | 802,951,550 |
| EARNINGS PER SHARE: | | | |
| Attributable to income from main operations | 24 | 3.19 | 4.03 |
| Attributable to net income for the year | 24 | 2.93 | 3.82 |

شركة فواز عبد العزيز الحكيوم وشركاه
ص.ت. ١٠١٠٠٣٦٢٠٩
شركة مساهمة

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements

شركة فواز عبد العزيز الحكيوم وشركاه
ص.ت. ١٠١٠٠٣٦٢٠٩
شركة مساهمة



Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2016

| | 2016 SR | 2015 SR |
|--|----------------------|------------------------|
| OPERATING ACTIVITIES | | |
| Income before zakat and income tax and non-controlling interests | 605,418,855 | 832,024,715 |
| Adjustments for: | | |
| Depreciation and amortization | 334,560,530 | 288,908,161 |
| Provision for end-of-service indemnities | 18,964,104 | 19,508,824 |
| Gain on disposal of property and equipment | (278,922) | (321,897) |
| Share in earnings of associates, net | (1,123,105) | (31,460,690) |
| Write-off of property and equipment and other intangible assets | 2,994,129 | 809,813 |
| | 960,535,591 | 1,109,468,926 |
| Changes in operating assets and liabilities: | | |
| Trade receivables, prepayments and other assets | 24,939,428 | (123,728,734) |
| Related parties balances | (119,834,177) | (227,514,520) |
| Inventories | (185,979,082) | (521,630,607) |
| Trade accounts payable | 16,421,701 | 20,340,082 |
| Accrued expenses and other payables | 17,179,121 | 13,350,744 |
| Cash from operations | 713,262,582 | 270,285,891 |
| Zakat and income tax paid | (12,551,493) | (61,479,155) |
| End-of-service indemnities paid | (8,784,560) | (10,914,199) |
| Net cash from operating activities | 691,926,529 | 197,892,537 |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (633,559,056) | (580,881,635) |
| Other intangible assets | (37,736,040) | (34,157,116) |
| Acquisition of business (note 12-b) | - | (378,000,000) |
| Acquisition of a subsidiary (note 12-a) | (12,279,505) | - |
| Acquisition of non-controlling interest in subsidiaries | - | (23,182,350) |
| Investments in associates and others | (3,698,699) | (31,914,713) |
| Proceeds from disposal of property and equipment | 948,550 | 861,750 |
| Net cash used in investing activities | (686,324,750) | (1,047,274,064) |
| FINANCING ACTIVITIES | | |
| Proceeds from short-term Murabaha financing and loans, net | 260,251,941 | 367,597,907 |
| Proceeds from long-term funding, net | 174,976,808 | 1,485,981,054 |
| Dividends paid | (210,000,000) | (577,500,000) |
| Non-controlling interests | - | 1,307,711 |
| Net cash from financing activities | 225,228,749 | 1,277,386,672 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 230,830,528 | 428,005,145 |
| Foreign currency translation difference | (213,929,896) | (249,054,194) |
| Cash and cash equivalents at the beginning of the year | 279,957,636 | 101,006,685 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 296,858,268 | 279,957,636 |
| NON-CASH TRANSACTIONS: | | |
| Increase in share capital through bonus shares (note 17) | - | 1,050,000,000 |

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements

شركة فواز عبد العزيز الحكير وشركاه
س.ت.ع. ١٠١٠٠٢٦٢٠٩
شركة مساهمة سعودية

شركة فواز عبد العزيز الحكير وشركاه
س.ت.ع. ١٠١٠٠٢٦٢٠٩
شركة مساهمة سعودية

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2016

| | Attributable to equity holders of the parent | | | | | | Total equity SR |
|--|--|-------------------------|--|-------------------------|----------------------------------|---------------------------------|--------------------|
| | Share capital SR | Statutory reserve SR | Foreign currency translation reserve SR | Retained earnings SR | Total shareholders' equity SR | Non-controlling interests SR | |
| Balance at 31 March 2014 | 1,050,000,000 | 328,278,314 | - | 1,047,467,808 | 2,425,746,122 | 27,247,117 | 2,452,993,239 |
| Final dividends 2014 (note 19) | - | - | - | (315,000,000) | (315,000,000) | - | (315,000,000) |
| Transfer to share capital (note 17) | 1,050,000,000 | (328,278,314) | - | (721,721,686) | - | - | - |
| Net income for the year | - | - | - | 802,951,550 | 802,951,550 | 9,366,055 | 812,317,605 |
| Interim dividends 2015 (note 19) | - | - | - | (262,500,000) | (262,500,000) | - | (262,500,000) |
| Transfer to statutory reserve (note 18-a) | - | 80,295,155 | - | (80,295,155) | - | - | - |
| Non-controlling interests acquired/disposed in subsidiaries (note 2) | - | - | - | (23,182,350) | (23,182,350) | 1,307,711 | (21,874,639) |
| Foreign currency translation loss (note 18-b) | - | - | (228,569,465) | - | (228,569,465) | (20,484,729) | (249,054,194) |
| Balance at 31 March 2015 | 2,100,000,000 | 80,295,155 | (228,569,465) | 447,720,167 | 2,399,445,857 | 17,436,154 | 2,416,882,011 |
| Final dividends 2015 (note 19) | - | - | - | (210,000,000) | (210,000,000) | - | (210,000,000) |
| Net income for the year | - | - | - | 615,804,862 | 615,804,862 | (3,188,872) | 612,615,990 |
| Transfer to statutory reserve (note 18-a) | - | 61,580,486 | - | (61,580,486) | - | - | - |
| Foreign currency translation loss (note 18-b) | - | - | (197,106,375) | - | (197,106,375) | (16,823,521) | (213,929,896) |
| Balance at 31 March 2016 | 2,100,000,000 | 141,875,641 | (425,675,840) | 791,944,543 | 2,608,144,344 | (2,576,239) | 2,605,568,105 |

شركة فواز عبد الحكيم وشركاه
م.ت. ١٠١٠٠٧٦٢٠٩
شركة مساهمة مسجلة
٢٠١٠٠٠٠٠٠٠٠٠

شركة فواز عبد الحكيم وشركاه
م.ت. ١٠١٠٠٧٦٢٠٩
شركة مساهمة مسجلة
٢٠١٠٠٠٠٠٠٠٠٠٠

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

1. ORGANIZATION AND ACTIVITIES

Fawaz Abdulaziz Al Hokair & Co. (the "Company") is a listed Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration No. 1010076209 dated 20 Sha'ban 1410H (corresponding to 18 March 1990).

The objectives of the Company as per its By-laws are to engage in the following activities:

- Wholesale and retail trading in ready-made cloth for men, women and children, shoes, textiles, house and office furniture, perfumes, natural cosmetics, ornaments and beauty materials and their compounds and traditional jewelry.
- Wholesale and retail trading in sports wares and shoes and their complementary.
- Management and operation of optics centers, wholesale and retail trading in eye glasses and sun glasses, contact lenses, optical equipment and accessories.
- Trading agencies.
- Purchase of land and construction of buildings thereon for the purpose of running the Company's activities and business.
- Manufacture, wholesale and retail in Ibayas, robes, scarfs and other women embroidered gowns.
- Wholesale and retail trading in gold, silver, jewelry, precious stones, diamonds, gold ornaments and precious metals.
- Wholesale and retail trading in communication equipment and related accessories and spare parts, maintenance and operation through trading agencies.
- Retail trading in consumer food products.
- Own and operate restaurants, coffee shops, import food products and acquire related equipment.
- Own and operate entertainment centers and acquire related equipment.

2. BASIS OF CONSOLIDATION

These consolidated financial statements include the assets, liabilities and result of operations of the Company and the following subsidiaries:

| Subsidiary company | Country of incorporation | Direct and indirect shareholding % | |
|---|-----------------------------|------------------------------------|------|
| | | 2016 | 2015 |
| Al Waheedah Equipment Co. Ltd. and its subsidiaries (i) Haifa B. Al Kalam & Partners | Kingdom of Saudi Arabia | 100 | 100 |
| International Co. for Trading and its subsidiaries (ii) | Kingdom of Saudi Arabia | 100 | 100 |
| Saudi Retail Co. Ltd. | Kingdom of Saudi Arabia | 100 | 100 |
| Wahba Trading Company Limited and its subsidiaries (iii) | Kingdom of Saudi Arabia | 100 | 100 |
| Kazakhstan Group (iv) | Republic of Kazakhstan | 100 | 100 |
| Al Farida Trading Agencies Company | Kingdom of Saudi Arabia | 70 | 70 |
| Retail Group Egypt | Arab Republic of Egypt | 98 | 98 |
| Retail Group Jordan and its subsidiary (v) | Hashemite Kingdom of Jordan | 95 | 95 |
| Nesk Trading Projects Company | Kingdom of Saudi Arabia | 100 | 100 |
| Global Leiva | Kingdom of Spain | 100 | 100 |

- (i) Al Waheedah Equipment Co. directly and indirectly owns certain active subsidiaries in Azerbaijan and dormant subsidiaries in United Arab Emirates. During the year ended 31 March 2015, the Company disposed 5% stake in Azerbaijan subsidiaries.

Fawaz Abdulaziz Al Hokair & Co. and its subsidiaries
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 March 2016

2. BASIS OF CONSOLIDATION (continued)

- (ii) Haifa B. Al Kalam & Partners directly and indirectly owns certain active subsidiaries in Georgia, Armenia, United States of America, Morocco and Balkan countries, and dormant subsidiaries in United Arab Emirates and British Virgin Islands.
- (iii) Wahba Trading Company Limited directly and indirectly owns certain dormant subsidiaries in Kingdom of Saudi Arabia and United Arab Emirates.
- (iv) Kazakhstan Group represents three entities namely Retail Management Kazakhstan, Fashion Retail Kazakhstan and Global Apparel Kazakhstan. All these entities were 85% directly owned. During the year ended 31 March 2015, the Company has completed the acquisition of the remaining 15% equity interests from the minority shareholders of Kazakhstan Group.
- (v) During the quarter ended 30 June 2015, the Company established a company in Republic of Iraq through Retail Group Jordan.

The principal activities of all the above subsidiary companies are wholesale and retail trading. Indirect shareholding represents cross ownership among the subsidiary companies.

A subsidiary is an entity in which the Company has direct and indirect equity interest of more than 50% and/or over which it exerts effective control. The financial statements of the subsidiary companies are prepared using accounting policies which are consistent with those of the Company. The subsidiary companies are consolidated from the date on which the Company is able to exercise effective control.

All significant inter-company balances and transactions have been eliminated on consolidation.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiary companies are identified separately from the Company's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling partners' shares of changes in equity since the date of the combination. Losses applicable to the non-controlling partners in excess of the non-controlling partners' interests in subsidiaries equity are allocated against the interest of the Company except to the extent that the non-controlling partners have binding obligations and are able to make additional investments to cover the losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted by the Company and its subsidiaries in preparing the consolidated financial statements are as follows:

Accounting convention

The consolidated financial statements are prepared under the historical cost convention, as modified to include the measurement, at fair value, of investments in available for sale securities.

Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting standards requires use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and activities actual result ultimately may differ from those estimates.

Cash and cash equivalents

For the purpose of preparing the consolidated statement of cash flows, cash and cash equivalents consists of bank balances, cash in hand and short-term deposits with an original maturity of three months or less.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable

Accounts receivable are stated at original amount less provision 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 as incurred.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a weighted average cost basis.

Investments

Investments in associates

Investments in associates in which the Company and its subsidiaries have equity interest between 20% to 50% and/or over which they exercise significant influence are recorded using the equity method, under which the investment is stated initially at cost and adjusted thereafter for the post acquisition changes in the net assets of the investee companies. The Company and its subsidiaries share in the net earnings or losses of the associates are included in the consolidated statement of income.

Investments in available for sale securities

Investments in available for sale securities are stated at fair value and included under non-current assets in the consolidated balance sheet. Unrealized gains or losses are included in the statement of changes in equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gains or losses previously reported in the equity is included in the consolidated statement of income for the year. Fair value is determined based on the market value if an open market exists or by using alternative revaluation methods. Otherwise cost is considered to be the fair value.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. Land and capital work in progress are not depreciated. The estimated rates of depreciation/amortization of other classes of assets are as follows:

| | <u>Depreciation percentage</u> |
|--------------------------------|--------------------------------|
| Buildings | 3% |
| Leasehold improvements | 12.5% |
| Furniture and office equipment | 10% |
| Motor vehicles | 25% |

Intangible assets

Goodwill

Goodwill arising from investments in subsidiaries represents the excess of the cost of acquisition over the Company's interests in the fair value of the net assets of these subsidiaries at the date of acquisition. The carrying amount of the goodwill is reviewed annually to determine whether there is any indication of impairment. If any such indication exists the carrying amount of goodwill is reduced to the estimated recoverable amount. Goodwill after initial recognition is measured at cost less accumulated impairment losses, if any.

If the fair value of the net assets acquired is in excess of the aggregate of the cost of acquisition, the Company 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 recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate of the cost of acquisition, then the gain is recognized in the consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Other intangible assets

Other intangible assets represent software implementation cost, key money, trademarks and other deferred charges, and are amortized using the straight line method over the estimated period of benefit.

The estimated period of amortization of the principal classes of other intangible assets is as follows:

| | <u>Years</u> |
|------------------------------|--------------|
| Software implementation cost | 25 |
| Key money | 10 |
| Deferred charges | 4 |

Trademarks are not subject to amortization. These are tested for impairment on annual basis.

Impairment of non-current assets

The Company and its subsidiaries periodically reviews the carrying amounts of their non-current tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company and its subsidiaries estimate the recoverable amount of the cash generating unit to which that asset belongs.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

Except for goodwill, where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash generating unit in prior periods. A reversal of an impairment loss is recognized as income immediately.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the suppliers or not.

Provisions

Provisions are recognized when the Company and its subsidiaries have an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

Zakat and income tax

Zakat is provided in accordance with the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia and on an accrual basis. The provision is charged to the consolidated statement of income. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization.

For subsidiaries outside the Kingdom of Saudi Arabia, provision for corporate tax is computed in accordance with tax regulations of the respective countries and charged to the consolidated statement of income.

Deferred income tax is provided for foreign subsidiaries, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on laws that have been enacted in the respective countries at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and income tax (continued)

Deferred income tax assets are recognized for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized.

The carrying amount of deferred income tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Dividends

Interim dividends are recorded as and when declared and approved by the Board of Directors. Annual final dividends are recognized as a liability at the time of their approval by the General Assembly.

End-of-service indemnities

End-of-service indemnities, required by the Saudi Arabian Labor Law, are provided in the consolidated financial statements based on the employees' length of service by the Company and its subsidiaries as at the consolidated balance sheet date. Foreign subsidiaries have pension schemes for their eligible employees in relevant foreign jurisdictions.

Revenue recognition

Sales are recognized when goods are delivered and invoices are issued to customers.

Dividend income is recognized when dividends are declared.

Other income are recognized when earned.

Expenses

Selling and marketing expenses principally comprise of costs incurred in the distribution and sale of the Company and its subsidiaries products. All other expenses are classified as general and administrative expenses.

Leasing

Rental proceeds under operating leases are recognized as income on a straight line basis over the term of the operating leases.

Rentals payments under operating leases are charged as expenses on a straight line basis over the term of the operating leases.

Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of income.

Assets and liabilities of the consolidated subsidiary companies denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the consolidated balance sheet date. Revenues and expenses of the consolidated subsidiary companies denominated in foreign currencies are translated into Saudi Riyals at average exchange rates during the year. Component of equity, other than retained earnings, are translated at the rates prevailing at the date of their occurrence. Exchange differences arising from such translations are included in the foreign currency translation reserve under equity in the consolidated balance sheet.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting

A segment is a distinguishable component of the Company and its subsidiaries that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

4. CASH AND CASH EQUIVALENTS

| | 2016 SR | 2015 SR |
|---------------------------|--------------------|--------------------|
| Cash at banks (note 14-a) | 274,415,634 | 259,163,900 |
| Cash in hand | 22,442,634 | 20,793,736 |
| | <u>296,858,268</u> | <u>279,957,636</u> |

5. TRADE RECEIVABLES, PREPAYMENTS AND OTHER ASSETS

| | 2016 SR | 2015 SR |
|--|--------------------|--------------------|
| Prepaid rent | 378,467,390 | 253,824,522 |
| Advances to suppliers | 195,931,809 | 255,572,160 |
| Deferred tax asset (note 16) | 64,324,641 | 19,240,228 |
| Receivable against sale of investments | 58,044,148 | 64,444,148 |
| Trade receivables | 55,456,959 | 101,198,196 |
| Security deposits | 43,802,957 | 46,700,596 |
| Employee receivables | 28,035,013 | 32,992,605 |
| Receivable against sale of brands | 22,889,925 | 24,027,286 |
| Margin compensation receivable | 17,614,517 | 24,525,320 |
| Margin on letters of credit and guarantee | 12,139,990 | 12,430,392 |
| Receivable from Human Resources Development Fund | 11,263,400 | 6,679,830 |
| Receivable against credit cards sales | 7,340,020 | 5,936,986 |
| Advance for investments | 5,863,958 | 32,550,022 |
| Dividends receivable | 5,000,000 | - |
| Others | 1,555,763 | 2,211,299 |
| | <u>907,730,490</u> | <u>882,333,590</u> |

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31 March 2016

6. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Company and its subsidiaries transacted with related parties. The terms of those transactions are approved by management in the ordinary course of business. The significant transactions and the related amounts are as follows:

| <i>Transactions:</i> | 2016 SR | 2015 SR |
|--|-------------|-------------|
| Rental payments including advances | 331,177,667 | 447,405,775 |
| Key management personnel salaries and benefits | 13,171,048 | 19,808,022 |
| Shop fits, design and construction works | 195,440,084 | 134,794,696 |
| Payments made on behalf of an associate | 6,739,659 | 3,248,000 |
| Board of Directors' and board committees remuneration and compensation | 1,421,000 | 1,941,000 |
| Printing and advertisement | 16,643,792 | 12,316,946 |

Amounts due from related parties as at 31 March consist of the following:

| <i>Related parties</i> | <i>Nature of transactions</i> | <i>Relationship</i> | 2016 SR | 2015 SR |
|--|-------------------------------|---------------------|--------------------|--------------------|
| Arabian Centers Company | Rental | Affiliate | 252,799,700 | 216,332,705 |
| Fawaz Abdulaziz Al Hokair Real Estate Co. | Construction work | Affiliate | 79,068,360 | 12,551,104 |
| FG 4 Limited | Expense paid on behalf | Associate | 24,529,050 | 17,789,391 |
| Egyptian Centers for Real Estate Development | Rental | Affiliate | 23,859,610 | 14,303,025 |
| International Shop Fittings Limited | Shop fits and designs | Associate | 21,673,148 | 15,281,683 |
| Burberry Saudi Co. Ltd. | Services and payments | Associate | 2,266,603 | 5,470,596 |
| | | | <u>404,196,471</u> | <u>281,728,504</u> |

Amount due to a related party as at 31 March consists of the following:

| <i>Related party</i> | <i>Nature of transactions</i> | <i>Relationship</i> | 2016 SR | 2015 SR |
|-----------------------|-------------------------------|---------------------|------------------|------------------|
| Hajen Company Limited | Printing and advertisement | Affiliate | 3,802,011 | 1,168,221 |
| | | | <u>3,802,011</u> | <u>1,168,221</u> |

7. INVENTORIES

| | 2016 SR | 2015 SR |
|------------------------------------|----------------------|----------------------|
| Goods available for sale | 2,232,417,896 | 2,012,094,322 |
| Goods in transit | 121,591,314 | 95,052,422 |
| Provision for inventory shortages | (160,023,962) | (102,583,657) |
| | <u>2,193,985,248</u> | <u>2,004,563,087</u> |
| Supplies | 82,010,120 | 76,838,370 |
| Provision for slow-moving supplies | (30,285,824) | (24,444,187) |
| | <u>2,245,709,544</u> | <u>2,056,957,270</u> |

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31 March 2016

8. INVESTMENTS IN ASSOCIATES AND OTHERS

| | <i>Ownership</i> | <i>Country of incorporation</i> | <i>2016</i> | <i>2015</i> |
|--|------------------|---------------------------------|--------------------|-------------|
| | <i>%</i> | | <i>SR</i> | <i>SR</i> |
| Associates: | | | | |
| Amwal Al Khaleejia Al Oula (i) | 25.0 | Kingdom of Saudi Arabia | 38,412,239 | 37,415,000 |
| International Shop Fittings Limited (ii) | 51.0 | United Arab Emirates | 37,892,944 | 37,892,944 |
| Investate Reality BSC | 13.9 | Kingdom of Bahrain | 33,743,119 | 32,841,863 |
| Burberry Saudi Co. Ltd. | 25.0 | Kingdom of Saudi Arabia | 26,717,538 | 27,376,288 |
| FG 4 Limited | 50.0 | United Arab Emirates | 71,140 | 187,780 |
| | | | 136,836,980 | 135,713,875 |
| Others: | | | | |
| Trade Center Co. Ltd. | 9.3 | Kingdom of Saudi Arabia | 94,000,000 | 94,000,000 |
| Gallery Mall (iii) | 16.7 | Kingdom of Saudi Arabia | 74,252,274 | 79,252,274 |
| Other investments | | | 13,199,600 | 9,500,901 |
| | | | 181,451,874 | 182,753,175 |
| | | | 318,288,854 | 318,467,050 |

Movement in associates during the year ended 31 March 2016 is as follows:

| | <i>Balance at</i> | <i>Share in earnings</i> | <i>Balance at</i> |
|-------------------------------------|----------------------|--------------------------|----------------------|
| | <i>31 March 2015</i> | <i>(losses)</i> | <i>31 March 2016</i> |
| | <i>SR</i> | <i>SR</i> | <i>SR</i> |
| Amwal Al Khaleejia Al Oula | 37,415,000 | 997,239 | 38,412,239 |
| International Shop Fittings Limited | 37,892,944 | - | 37,892,944 |
| Investate Reality BSC | 32,841,863 | 901,256 | 33,743,119 |
| Burberry Saudi Co. Ltd. | 27,376,288 | (658,750) | 26,717,538 |
| FG 4 Limited | 187,780 | (116,640) | 71,140 |
| | 135,713,875 | 1,123,105 | 136,836,980 |

Movement in associates during the year ended 31 March 2015 is as follows:

| | <i>Balance at</i> | <i>Addition</i> | <i>Share in</i> | <i>Balance at</i> |
|-------------------------------------|----------------------|-------------------|-------------------|----------------------|
| | <i>31 March 2014</i> | <i>SR</i> | <i>earnings</i> | <i>31 March 2015</i> |
| | <i>SR</i> | | <i>SR</i> | <i>SR</i> |
| Amwal Al Khaleejia Al Oula | - | 32,025,000 | 5,390,000 | 37,415,000 |
| International Shop Fittings Limited | 24,245,420 | - | 13,647,524 | 37,892,944 |
| Investate Reality BSC | 23,442,697 | - | 9,399,166 | 32,841,863 |
| Burberry Saudi Co. Ltd. | 24,352,288 | - | 3,024,000 | 27,376,288 |
| FG 4 Limited | 187,780 | - | - | 187,780 |
| | 72,228,185 | 32,025,000 | 31,460,690 | 135,713,875 |

- (i) During the year ended 31 March 2015, one of the Company's subsidiary acquired 25% equity interest in Amwal Al Khaleejia Al Oula, a limited liability company registered in the Kingdom of Saudi Arabia. The entity has been established for the sole purpose of investing in and holding shares in United Trading and Marketing Company Limited (U-Mark), a Saudi closed joint stock company.
- (ii) During the year ended 31 March 2014, the Company participated in establishing International Shop Fittings Limited, a limited liability company registered in United Arab Emirates. The objective of the entity is to design, manufacture and sell store shop fits and decorations. The Company does not exert effective control over the operating and financial policies of the entity, accordingly the investment has been accounted for as an associate.

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31 March 2016

8. INVESTMENTS IN ASSOCIATES AND OTHERS (continued)

- (iii) Investment in Gallery Mall represents the Company's share in a Musharaka venture. The venture is for the construction and management of a mall and a hotel. The investment is amortized over the period of 19 years being the legal term life of the investment.

Following is the movement in the investment in Gallery Mall:

| | 2016 SR | 2015 SR |
|--------------------------------------|--------------------------|--------------------------|
| <i>Cost</i> | | |
| At the beginning and end of the year | <u>104,252,274</u> | <u>104,252,274</u> |
| <i>Accumulated amortization</i> | | |
| At the beginning of the year | 25,000,000 | 20,000,000 |
| Charge for the year | <u>5,000,000</u> | <u>5,000,000</u> |
| At the end of the year | <u>30,000,000</u> | <u>25,000,000</u> |
| <i>Net book value</i> | <u><u>74,252,274</u></u> | <u><u>79,252,274</u></u> |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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9. PROPERTY AND EQUIPMENT

| | Land SR | Buildings and leasehold improvements SR | Furniture and office equipment SR | Motor vehicles SR | Capital work in progress SR | Total 2016 SR | Total 2015 SR |
|--|------------|--|--|-------------------------|--------------------------------------|---------------------|---------------------|
| Cost | | | | | | | |
| At the beginning of the year | 68,991,690 | 2,641,449,960 | 520,878,112 | 14,451,812 | 61,319,342 | 3,307,090,916 | 2,671,692,625 |
| Additions | - | 411,130,359 | 99,454,806 | 1,501,676 | 121,472,215 | 633,559,056 | 580,881,635 |
| Related to acquired business (note 12) | - | 4,585,759 | - | - | - | 4,585,759 | 57,357,674 |
| Transfers | - | 33,059,816 | - | - | (33,059,816) | - | - |
| Disposals / write-off | - | (5,997,598) | (2,662,588) | (1,017,076) | - | (9,677,262) | (2,841,018) |
| At the end of the year | 68,991,690 | 3,084,228,296 | 617,670,330 | 14,936,412 | 149,731,741 | 3,935,558,469 | 3,307,090,916 |
| Accumulated depreciation | | | | | | | |
| At the beginning of the year | - | 1,085,392,756 | 202,331,848 | 13,084,426 | - | 1,300,809,030 | 1,030,691,955 |
| Charge for the year | - | 252,956,408 | 58,958,163 | 954,022 | - | 312,868,593 | 271,688,622 |
| Disposals / write-off | - | (4,370,480) | (1,408,747) | (347,448) | - | (6,126,675) | (1,571,547) |
| At the end of the year | - | 1,333,978,684 | 259,881,264 | 13,691,000 | - | 1,607,550,948 | 1,300,809,030 |
| Net book value | | | | | | | |
| At 31 March 2016 | 68,991,690 | 1,750,249,612 | 357,789,066 | 1,245,412 | 149,731,741 | 2,328,007,521 | |
| At 31 March 2015 | 68,991,690 | 1,556,057,204 | 318,546,264 | 1,367,386 | 61,319,342 | | 2,006,281,886 |

Land includes certain plots amounting to SR 16 million (2015: SR 16 million) owned by an affiliate. The transfer of the title deed of these plots of land to the Company was in process as at 31 March 2016.

Capital work in progress as at 31 March 2016 represents the cost incurred for setting-up new stores.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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10. INTANGIBLE ASSETS – GOODWILL

| | 2016 SR | 2015 SR |
|--|-------------|-------------|
| Nesk Projects Trading Company (a) | 417,796,779 | 417,796,779 |
| Business acquisition – Mango brand (note 12-b) | 319,508,613 | 319,508,613 |
| Wahba Trading Company Limited (b) | 61,437,764 | 61,437,764 |
| Models Own Holding Limited (note 12-a) | 5,817,109 | - |
| | 804,560,265 | 798,743,156 |

- a) On 10 Dhul-Qadah 1433H (corresponding to 26 September 2012), the Company completed the acquisition process of Nesk Trading Projects Company, a limited liability company registered in the Kingdom of Saudi Arabia, and operates fashion retail stores all over the Kingdom with franchise rights of a number of international fashion brands including Stradivarius, Mango, Okaidi, Women' Secret, Gerry Weber and Ikks.

The Company acquired an effective 100% equity interest in Nesk Trading Projects Company through a tender offer by the Company for cash in an aggregate amount of SR 730 million having net acquisition cost of SR 661.2 million after deducting net cash acquired amounting to SR 68.8 million. The acquisition was financed through internal funding of SR 13 million and the balance was arranged through Murabaha financing (note 14).

The acquisition has been accounted for using the purchase method of accounting, and accordingly, the purchase price paid has been allocated to the assets and liabilities based on fair values of the assets acquired and liabilities assumed, as determined by both parties. The excess of the consideration paid over the fair value of the assets acquired, including separately identifiable intangible assets, and liabilities assumed has been allocated to goodwill.

- b) During April 2009, the Company acquired 100% equity ownership in Wahba Trading Company Limited. At the date of acquisition the fair value of net assets of the subsidiary was SR 118.6 million and the cost of acquisition was SR 180 million accordingly a goodwill amounting to SR 61,437,764 arose at acquisition of this subsidiary.

Goodwill impairment test

Goodwill is tested annually for impairment by management in the fourth quarter of the financial year. For the year ended 31 March 2016, the management has determined that goodwill carrying amounts are less than their recoverable amounts. Recoverable amounts were determined on the basis of value-in-use calculation. This calculation uses cash flow projections for five years based on financial budgets approved by management. Cash flows beyond the budgets are extrapolated using the estimated growth rate for each Wahba Trading Company Limited, Nesk Projects Trading Company and Mango Brand related business of 5%, 2.5% and 2.5%, respectively. In management's opinion, the growth rate assumptions do not exceed the long-term average growth rates for fashion retail business in which the companies operate. Key assumptions for the value-in-use calculation are set out below.

| | <i>Wahba Trading Company Limited</i> % | <i>Nesk Projects Trading Company</i> % | <i>Mango Brand related business</i> % |
|-------------------------------------|---|---|--|
| Discount rate | 8 | 8 | 8 |
| Budgeted gross margins | 46 | 45 | 40 |
| Average annual growth rate for sale | 5 | 2.5 | 2.5 |
| Terminal growth rate | 5 | 2.5 | 2.5 |

The discount rates used are pre-zakat and reflect specific risks relating to the subsidiaries. Management has determined the budgeted gross margins based on past performance and its expectations for the market development.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use for the subsidiaries, any adverse changes in a key assumption would result in an impairment loss. The key assumptions, where reasonably possible changes could result in impairment, are the terminal growth rates and the discount rates used.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
31 March 2016

11. OTHER INTANGIBLE ASSETS

| Cost | Software implementation cost SR | Key money SR | Deferred charges SR | Trademarks SR | Total 2016 SR | Total 2015 SR |
|---------------------------------|---------------------------------------|-------------------|------------------------|-------------------|---------------------|---------------------|
| At the beginning of the year | 35,221,948 | 114,126,913 | 52,466,216 | 25,070,436 | 226,885,513 | 192,852,570 |
| Additions | - | 35,086,985 | 2,649,055 | - | 37,736,040 | 34,157,116 |
| Write-off | - | (130,816) | - | - | (130,816) | (124,173) |
| At the end of the year | 35,221,948 | 149,083,082 | 55,115,271 | 25,070,436 | 264,490,737 | 226,885,513 |
| Accumulated amortization | | | | | | |
| At the beginning of the year | 8,471,624 | 45,250,168 | 28,007,949 | - | 81,729,741 | 69,554,180 |
| Amortization | 1,469,848 | 9,938,951 | 5,283,138 | - | 16,691,937 | 12,219,539 |
| Write-off | - | (17,646) | - | - | (17,646) | (43,978) |
| At the end of the year | 9,941,472 | 55,171,473 | 33,291,087 | - | 98,404,032 | 81,729,741 |
| <i>Net book value</i> | | | | | | |
| 31 March 2016 | 25,280,476 | 93,911,609 | 21,824,184 | 25,070,436 | 166,086,705 | |
| 31 March 2015 | 26,750,324 | 68,876,745 | 24,458,267 | 25,070,436 | | 145,155,772 |

12. ACQUISITION OF BUSINESS

- a) During the year ended 31 March 2016, the Company completed the acquisition of 51% equity interest in Models Own Holding Limited, registered in England and Wales, through its indirectly 51% owned subsidiary named Express Fashion Trading Limited registered in the United Arab Emirates for a purchase price of GBP 2 million (equivalent to SR 12.3 million). The acquisition has been accounted for using the purchase method of accounting, and accordingly, the purchase consideration has been allocated based on the provisional fair values of the assets acquired and liabilities assumed as determined by both parties. The excess of the consideration paid over the fair value of the assets acquired, including separately identifiable intangible assets, and liabilities assumed has been allocated to goodwill amounting to SR 5.8 million (note 10). The finalization of the purchase price allocation was still under process as at 31 March 2016.
- b) On 20 Dhul-Qadah 1435H (corresponding to 15 September 2014), the Company signed an agreement with Danah Group Trading Establishment, a sole proprietorship registered in the Kingdom of Saudi Arabia to acquire the business of fashion retail and franchise rights of the international fashion brand "Mango" in the Kingdom of Saudi Arabia.

The consideration paid by the Company for this business acquisition amounted to SR 378 million.

The related business acquisition has been accounted for using the purchase method of accounting, and accordingly, the consideration paid has been allocated based on the fair values of the assets acquired. The excess of the consideration paid over the fair value of the assets acquired has been allocated to goodwill (note 10).

The purchase price paid has been allocated to the assets based on fair values of the assets acquired, as determined by both parties.

13. SHORT-TERM MURABAHA FINANCING AND LOANS

The Company has short-term Murabaha facilities with local and foreign commercial banks amounting to SR 1,615 million (31 March 2015: SR 1,477 million). As at 31 March 2016, the outstanding balance of these facilities was SR 1,094 million (31 March 2015: SR 833.3 million). The facilities are secured by promissory notes by the Company.

14. LONG-TERM FUNDING

a) *Murabaha financing*

The Company has signed a long-term Murabaha financing agreement with International Finance Corporation ("IFC"), a member of World Bank Group, amounting to USD 50 million (SR 187.5 million) on 1 October 2011. During the year ended 31 March 2013, the Company agreed with IFC to increase the Murabaha facility amount by USD 25 million (SR 93.75 million). As per the terms of the agreement, the term of the Murabaha facility is for a period of five and half years. The Murabaha facility is repayable in equal semi-annual installments commencing after the two years from the date of the first disbursement. The Company has fully utilized this facility. The Murabaha facility carries markup at LIBOR plus agreed margin per annum. The outstanding balance as at 31 March 2016 was SR 105.5 million (31 March 2015: SR 174.5 million).

In connection with the acquisition of Nesk Trading Projects Company (note 10-a), a debt of SR 717 million was raised. The debt comprises a long-term syndicated Murabaha financing from SAMBA Financial Group, Gulf International Bank and Saudi Hollandi Bank. As per the syndicated facility agreement, the term of the Murabaha facility is for a period of 5 years. The Murabaha facility is repayable in equal 8 installments commencing on March 2014 and ending on October 2017. As at 31 March 2016 the related facility was settled in full in accordance with latest Master Murahaba Facility Agreement signed on 4 June 2014.

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14. LONG-TERM FUNDING (continued)

a) *Murabaha financing (continued)*

On 4 June 2014, the Company has signed a long-term Master Murabaha Facility Agreement (the "Agreement") of SR 1 billion with various local and regional banks. As per the Agreement, the term of the Murabaha facility is for a period of 7 years. The Murabaha facility is repayable in equal 12 installments commencing on December 2015 and ending on June 2021. As at 31 March 2016, the Company has fully utilized this facility. The Murabaha facility carries markup at SIBOR plus agreed margin per annum. The outstanding balance as at 31 March 2016 was SR 916.7 million (31 March 2015: SR 1,000 million).

On 16 October 2014, the Company has signed a long-term Master Murabaha Facility Agreement (the "Agreement") of USD 190 million (SR 712.5 million) with a foreign bank. As per the Agreement, the term of the Murabaha facility is for a period of 5 years. The Murabaha facility is repayable in equal quarterly installments commencing on January 2016 and ending on October 2019. The facility is secured by promissory notes by the Company. As at 31 March 2016, the Company has fully utilized this facility. The Murabaha facility carries markup at LIBOR plus agreed margin per annum. The outstanding balance as at 31 March 2016 was SR 668 million (31 March 2015: SR 712.5 million).

On 13 April 2015, the Company has signed an amendment of a facility agreement (the "Agreement") that was originally signed on 24 December 2013 with a local bank to allow for an increase in the overall facility amount from SR 235 million to SR 335 million. The amended facility Agreement includes total amount of SR 100 million as medium-term loan. The medium-term loan is repayable in equal 18 quarterly installments commencing on October 2015 and ending on January 2020. The facility is secured by promissory notes by the Company. As at 31 March 2016, the Company has fully utilized the medium-term loan. The outstanding balance of this medium-term loan as at 31 March 2016 was SR 88.7 million (31 March 2015: Nil).

On 28 December 2015, the Company has signed a long-term Master Murabaha Facility Agreement (the "Agreement") of AED 275.6 million (SR 281.1 million) with a foreign bank. As per the Agreement, the term of the Murabaha facility is for a period of 6 years. The Murabaha facility is repayable in equal semi-annual installments commencing on 28 June 2017 and ending on 28 December 2021. The facility is secured by promissory notes by the Company. As at 31 March 2016, the Company has fully utilized this facility. The Murabaha facility carries markup at Emirates Interbank Offered Rate (EIBOR) plus agreed margin per annum.

Murabaha facility agreements contain covenants, which among other things, require certain financial ratios to be maintained. The Company ensures that it is always in compliance with the loan covenants prescribed in such agreements. In case of breach of covenant at any point of time, the management ensures that it reconciles its position with the lending banks and that it has obtained a formal waiver from the related lender.

The above Murabaha facilities are disclosed net of related unamortized upfront fees (including commitment fees) amounting to SR 26.4 million as at 31 March 2016 (31 March 2015: SR 29.3 million).

Cash at banks as at 31 March 2016 include quarterly margin deposits related to facility agreements amounting to SR 95.5 million (31 March 2015: SR Nil).

b) *Sukuk*

On 24 June 2014, the Company has issued Sukuk amounting to SR 500 million at par value of SR 1 million each without discount or premium, maturing in 2019. The Sukuk issuance bear a rate of return based on SIBOR plus an specified margin payable quarterly in arrears from the net income received under the Sukuk assets.

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15. ACCRUED EXPENSES AND OTHER PAYABLES

| | 2016 SR | 2015 SR |
|--|--------------------|--------------------|
| Payable to contractors and others | 188,565,285 | 187,765,419 |
| Rent payable | 109,179,958 | 120,643,580 |
| Provision for zakat and income tax (note 16) | 83,508,040 | 57,508,131 |
| Employees' salaries and benefits | 79,818,011 | 70,636,434 |
| Finance cost payable | 26,748,903 | 18,800,634 |
| Royalty payable | 23,352,194 | 22,003,956 |
| Payable against credit cards | 19,376,106 | 1,135,105 |
| Government duties | 10,640,842 | 8,860,379 |
| Accrued consignment | 5,445,875 | 12,268,528 |
| Others | 7,759,980 | 10,361,559 |
| | <u>554,395,194</u> | <u>509,983,725</u> |

16. ZAKAT AND INCOME TAX

Charge, net of deferred tax for the year:

The charge, net of deferred tax for the year for zakat and income tax is as follows:

| | 2016 SR | 2015 SR |
|-----------------------------------|--------------------|-------------------|
| Zakat provision for the year | 33,168,514 | 29,993,797 |
| Income tax provision for the year | 4,718,764 | 8,953,541 |
| Deferred taxation | (45,084,413) | (19,240,228) |
| | <u>(7,197,135)</u> | <u>19,707,110</u> |

The zakat provision represents the zakat charged in the financial statement of the Company and its subsidiaries which are subject to zakat. Zakat is charged at the higher of net income subject to zakat or the zakat base in accordance with regulation of the Department of Zakat and Income Tax ("DZIT").

Movement in provision for zakat and income tax

| At 31 March 2016 | Zakat | | | Income | Total |
|--------------------------------------|-------------------|------------------|-------------------|-------------|-------------------|
| | Company | Subsidiaries | Sub-total | Tax SR | SR |
| Balance at the beginning of the year | 53,146,808 | 1,028,594 | 54,175,402 | 3,332,729 | 57,508,131 |
| Provision for the year | 28,155,000 | 5,013,514 | 33,168,514 | 4,718,764 | 37,887,278 |
| Transferred from local subsidiaries | 1,028,594 | (1,028,594) | - | - | - |
| Payment during the year | (4,500,000) | - | (4,500,000) | (8,051,493) | (12,551,493) |
| Prior year adjustment | - | 664,124 | 664,124 | - | 664,124 |
| Balance at the end of the year | <u>77,830,402</u> | <u>5,677,638</u> | <u>83,508,040</u> | <u>-</u> | <u>83,508,040</u> |

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16. ZAKAT AND INCOME TAX (continued)

Movement in provision for zakat and income tax (continued):

| <i>At 31 March 2015</i> | <i>Zakat</i> | | | <i>Income</i> | <i>Total</i> |
|--------------------------------------|-------------------|---------------------|-------------------|------------------|-------------------|
| | <i>SR</i> | | | <i>tax</i> | <i>SR</i> |
| | <i>Company</i> | <i>Subsidiaries</i> | <i>Sub-total</i> | <i>SR</i> | <i>SR</i> |
| Balance at the beginning of the year | 27,861,415 | 46,253,148 | 74,114,563 | 8,504,647 | 82,619,210 |
| Provision for the year | 25,266,769 | 4,727,028 | 29,993,797 | 8,953,541 | 38,947,338 |
| Transferred from local subsidiaries | 43,067,447 | (43,067,447) | - | - | - |
| Payment during the year | (43,048,823) | (4,304,873) | (47,353,696) | (14,125,459) | (61,479,155) |
| Prior year adjustment | - | (2,579,262) | (2,579,262) | - | (2,579,262) |
| Balance at the end of the year | <u>53,146,808</u> | <u>1,028,594</u> | <u>54,175,402</u> | <u>3,332,729</u> | <u>57,508,131</u> |

Status of assessments

Zakat status of the Company and its local subsidiaries

The Company has filed its zakat returns with DZIT for all years up to the year ended 31 March 2015 and the zakat certificate is in process to be received. The zakat returns for the years from 31 March 2008 to 31 March 2015 are under review of DZIT.

During the year ended 31 March 2012, the Company received zakat assessment for the years ended 31 March 2002 to 2007, which showed additional claims from DZIT amounting to SR 10 million. The Company has objected on certain items amounted to SR 4 million and accordingly submitted a letter of guarantee for the objected amount and received the final zakat certificate for the said years. The Company has also filed an appeal against the remaining amount of SR 6 million which is under process as at 31 March 2016.

Income tax status of foreign subsidiaries

The income tax returns have been filed with the relevant tax authorities for all years up to the year ended 31 March 2014 for the subsidiaries in Egypt, Morocco and Armenia. For the subsidiary in Georgia, the income tax returns have been filed for all years up to the year ended 31 March 2015. The income tax returns for above subsidiaries are under review by the relevant tax authorities.

For the subsidiaries in Jordan and United States of America, the income tax returns have been filed for all years up to the year ended 31 March 2015 and the assessments have been completed up to years ended 31 March 2013 and 31 March 2014, respectively.

For the subsidiaries in Kazakhstan, Azerbaijan and Balkan Countries the income tax returns have been filed up to the year ended 31 December 2014. The income tax returns are under review by the relevant tax authorities. For the subsidiary in Spain, the income tax returns have been filed for all years up to the year ended 31 December 2014.

Deferred tax

During the year ended 31 March 2015, Global Leiva, a subsidiary, has recorded deferred tax asset amounting to SR 19.2 million. Global Leiva has further recorded deferred tax asset amounting to SR 45.1 million during the year ended 31 March 2016. Deferred tax asset has been recognized in respect of the subsidiary's tax losses carried forward that are available for offsetting against future taxable profits. As per the subsidiary's business plans, forecasts and budgets, it will be generating enough taxable profit to offset the recognized deferred tax assets.

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17. SHARE CAPITAL

On 17 Ramadan 1435H (corresponding to 14 July 2014), the general assembly of shareholders has approved an increase in the share capital of the Company from SR 1,050 million to SR 2,100 million through distribution of one bonus share for every one share held through capitalization of retained earnings amounting to SR 721,721,686 and statutory reserve amounting to SR 328,278,314. All legal formalities required to enforce the increase in the share capital were completed during the year ended 31 March 2015. Accordingly, the Company's share capital at 31 March 2016 amounted to SR 2,100 million consisting of 210 million shares of SR 10 each fully paid and issued.

18. RESERVES

a) *Statutory reserve:*

In accordance with Regulations for Companies in Saudi Arabia, the Company must transfer 10% of its net income for the year to the statutory reserve until such reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

b) *Foreign currency translation reserve:*

During the final quarter of the year ended 31 March 2015, the Company has recorded exchange translation difference aggregating to SR 228.5 million in respect of receivables from foreign subsidiaries and net investment in foreign operations, mainly Commonwealth of Independent States (CIS Countries), Spain and Egypt. The Company has further recorded SR 197 million during the year ended 31 March 2016 mainly in respect of receivables from Kazakhstan, Azerbaijan and Georgia subsidiaries. Such receivables are part of the Company's net investment in these subsidiaries. Settlement for such receivables is not planned and it is unlikely to occur in the foreseeable future.

19. DIVIDENDS

On 13 Ramadan 1436H (corresponding to 30 June 2015), the general assembly of shareholders has approved to distribute final cash dividends of SR 210 million (SR 1 per share) for the six months ended 31 March 2015.

The general assembly of shareholders in its meeting on 17 Ramadan 1435H (corresponding to 14 July 2014) had approved distribution of cash dividends of SR 3 per share totaling SR 315 million for the six months ended 31 March 2014. Moreover, on 25 Dhul-Hijjah 1435H (corresponding to 19 October 2014), the Board of Directors recommended to distribute interim cash dividends of SR 262.5 million (SR 1.25 per share) for the six months period ended 30 September 2014.

20. SELLING AND MARKETING EXPENSES

| | 2016 SR | 2015 SR |
|----------------------------------|--------------------|--------------------|
| Employees' salaries and benefits | 184,772,124 | 160,617,303 |
| Rent | 47,326,609 | 45,649,705 |
| Advertising and promotions | 41,731,201 | 41,977,262 |
| Freight and distribution charges | 17,138,686 | 10,985,872 |
| Travel | 16,398,925 | 16,288,532 |
| Utilities and maintenance | 10,617,062 | 10,003,919 |
| Bank charges | 5,263,361 | 3,035,425 |
| Others | 8,334,089 | 12,808,397 |
| | <u>331,582,057</u> | <u>301,366,415</u> |

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21. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2016 SR | 2015 SR |
|--|--------------------|--------------------|
| Employees' salaries and related benefits | 195,078,682 | 206,362,231 |
| Rent | 53,494,117 | 59,185,511 |
| Travel | 22,935,834 | 17,002,707 |
| Bank charges | 17,793,749 | 21,692,527 |
| Utilities and maintenance | 15,158,506 | 15,415,785 |
| Insurance | 7,285,069 | 6,164,477 |
| Government fees and related charges | 4,223,649 | 2,566,723 |
| Stationary and supplies | 4,124,655 | 4,085,050 |
| Professional fees | 2,298,534 | 2,768,863 |
| Others | 13,571,407 | 10,996,601 |
| | <u>335,964,202</u> | <u>346,240,475</u> |

22. OTHER INCOME, NET

| | 2016 SR | 2015 SR |
|---|-------------------|-------------------|
| Key money income | 15,000,000 | 30,297,917 |
| Dividend income | 26,000,000 | 12,700,003 |
| Rental income | 5,122,394 | 3,672,255 |
| Foreign exchange income, net | 3,864,275 | 1,618,910 |
| Gain on sale of investments and brands related business | - | 8,453,895 |
| Miscellaneous | 6,135,359 | (1,925,136) |
| | <u>56,122,028</u> | <u>54,817,844</u> |

23. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At 31 March, the Company and its subsidiaries had contingent liabilities and capital commitments as follows:

| | 2016 SR | 2015 SR |
|--|---------------|---------------|
| Letters of credit and guarantee | 920,436,836 | 1,000,993,132 |
| Operating leases | 1,068,585,218 | 897,759,088 |
| Capital commitments-property and equipment | 207,842,516 | 234,562,872 |

24. EARNINGS PER SHARE

Earnings per share attributable to income from main operations and net income was calculated by dividing income from main operations and net income for the year by the number of outstanding ordinary shares during the year amounting to 210 million shares.

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25. SEGMENT INFORMATION

The Company and its subsidiaries mainly sell fashion apparels and operate through their various retail outlets scattered in the Kingdom of Saudi Arabia. Further, the Company operates through certain subsidiaries in the international markets, in Jordan, Egypt, Republic of Kazakhstan, United States of America, Republic of Azerbaijan, Georgia, Armenia, Morocco, Spain, Balkan countries, Republic of Iraq, United Arab Emirates and England.

Since the Company and its subsidiaries carry out their activities through one business segment in various geographical areas, segment reporting is provided by geographical area only.

The selected segment information is provided by geographical segments as follows:

| | <i>Domestic</i> SR'000 | <i>International</i> SR'000 | <i>Inter-segment</i> <i>elimination</i> SR'000 | <i>Total</i> SR'000 |
|--|---------------------------|--------------------------------|--|------------------------|
| <u><i>As at and for the year ended 31 March 2016</i></u> | | | | |
| Total assets | 7,456,913 | 2,211,009 | (2,196,484) | 7,471,438 |
| Total liabilities | 4,517,205 | 2,995,202 | (2,646,537) | 4,865,870 |
| Sales | 5,796,995 | 1,589,186 | (109,204) | 7,276,977 |
| <u><i>As at and for the year ended 31 March 2015</i></u> | | | | |
| Total assets | 6,748,748 | 1,920,611 | (1,899,734) | 6,769,625 |
| Total liabilities | 4,096,051 | 2,255,084 | (1,998,392) | 4,352,743 |
| Sales | 5,232,023 | 1,783,168 | (116,518) | 6,898,673 |

26. FAIR VALUE

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company and its subsidiaries financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Company and its subsidiaries financial assets and liabilities are not materially different from their carrying values.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet principally include cash and cash equivalents, related parties, prepayments, other assets, trade payables, accruals and other liabilities.

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Company and its subsidiaries have no significant concentration of credit risk. Cash is substantially placed with local banks with sound credit ratings. Accounts receivable and other assets are carried net of provision for doubtful debts, if any.

Commission rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company and its subsidiaries' financial position and cash flows. The Company and its subsidiaries monitor the fluctuations in commission rates and believe that the effect of the commission rate risk is not material.

Liquidity risk is the risk that the Company and its subsidiaries will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity is managed periodically by ensuring its availability in amounts sufficient to meet any future commitments. The management believes that the Company and its subsidiaries are not exposed to significant risks in relation to liquidity.

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31 March 2016

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company and its subsidiaries' transactions are principally in Saudi riyals, Euros and U.S. dollars. Management monitors the fluctuations in currency exchange rates, and the effect of the currency fluctuation has been accounted for in the consolidated financial statements.

At the end of the year, the Company and its subsidiaries had the following significant net currency exposures in foreign currencies which are not pegged to Saudi Riyal. Presented below are the equivalent Saudi riyal amounts using the year end exchange rates:

| | 2016 SR | 2015 SR |
|---|---------------|-------------|
| <i>Foreign currency exposures</i> | | |
| Euro, Georgian Lari, Egyptian Pound, Kazakhstan Tenge, Armenian Dram and Azerbaijan New Manat | 1,058,675,221 | 918,216,773 |

The table below shows the non-pegged currencies to which the Company and its subsidiaries have a significant exposure as at 31 March 2016 and 2015 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of equity (due to the fair value of the currency sensitive non-trading monetary assets and liabilities).

| <i>Currency exposures</i> | <i>Change in currency rate</i> | <i>Effect on net equity</i> | |
|---|------------------------------------|-----------------------------|---------------|
| | | 2016 SR | 2015 SR |
| Euro, Georgian Lari, Egyptian Pound, Kazakhstan Tenge, Armenian Dram and Azerbaijan New Manat | +/- 1% | +/- 10,586,752 | +/- 9,182,168 |

As the Saudi Riyal is pegged to US Dollar, the group is not exposed to significant currency risk arising out of US Dollar.

28. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 24 Sha'aban 1437H (corresponding to 31 May 2016).

29. COMPARATIVE FIGURES

Certain figures for the prior year have been reclassified to conform with the presentation in the current year.