

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

**INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**  
(UNAUDITED)

**FOR THE THREE MONTHS PERIOD AND YEAR ENDED  
31 DECEMBER 2016  
WITH INDEPENDENT AUDITORS' REVIEW REPORT**

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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD AND YEAR ENDED 31 DECEMBER 2016**

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

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

**Scope of review:**

We have reviewed the accompanying interim consolidated balance sheet of United Electronics Company (the "Company") and its Subsidiaries (together referred to as the "Group") as at 31 December 2016, the related interim consolidated statement of income for the three months period and year ended 31 December 2016, the interim consolidated statement of cash flows and the interim consolidated statement of changes in shareholders' equity for the year ended 31 December 2016 and the attached notes 1 to 15 which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required.

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

**Conclusion:**

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

**PKF Al-Bassam & Al Nemer**  
**Allied Accountants**

**Ibrahim A. Al Bassam**  
Licence No.337

Al Khobar, January 17, 2016  
19 Rabi II, 1438H



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

**INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)**  
**AS AT 31 DECEMBER 2016**  
(Expressed in Saudi Riyals)

		<b>31 DECEMBER 2016 (UNAUDITED)</b>	<b>31 DECEMBER 2015 (AUDITED)</b>
	<b>Note</b>		
<b><u>ASSETS</u></b>			
<b>Current assets</b>			
Cash and cash equivalents	4	100,197,958	66,222,180
Accounts receivables, net		3,266,199	13,654,035
Inventories, net		544,045,471	651,792,118
Prepayments and other receivables		59,985,708	68,891,480
Installment sales receivable – Short term portion, net		62,571,082	18,111,592
<b>Total current assets</b>		<b>770,066,418</b>	<b>818,671,405</b>
<b>Non-current assets</b>			
Installment sales receivable – Long term portion, net		18,464,809	6,952,247
Deferred tax asset		837,390	-
Property and equipment		456,616,831	468,962,664
Intangible assets		5,011,645	8,849,831
<b>Total non-current assets</b>		<b>480,930,675</b>	<b>484,764,742</b>
<b>Total assets</b>		<b>1,250,997,093</b>	<b>1,303,436,147</b>
<b><u>LIABILITIES</u></b>			
<b>Current liabilities</b>			
Accounts payable		488,692,903	558,569,785
Accrued expenses and other liabilities		132,158,551	93,577,163
Deferred revenue from additional service program – Short term portion		9,685,452	12,022,839
Deferred revenue from sale and leaseback – Short term portion	7	961,548	961,548
Murabaha finance – current portion	8	-	20,000,000
Zakat and tax provision	6	3,608,002	3,377,893
<b>Total current liabilities</b>		<b>635,106,456</b>	<b>688,509,228</b>
<b>Non-current liabilities</b>			
Murabaha finance – long term portion	8	-	10,000,000
Deferred revenue from additional service program – Long term portion		15,134,051	8,936,124
Deferred revenue from sale and leaseback – Long term portion	7	14,904,128	15,865,676
Employees' end of service benefits		53,609,570	48,471,036
Deferred tax liability		-	32,158
<b>Total non-current liabilities</b>		<b>83,647,749</b>	<b>83,304,994</b>
<b>Total liabilities</b>		<b>718,754,205</b>	<b>771,814,222</b>
<b><u>SHAREHOLDERS' EQUITY</u></b>			
Share capital	1	360,000,000	360,000,000
Statutory reserve		66,299,054	66,088,888
Retained earnings		106,048,475	105,596,980
Foreign currency translation reserve		(104,641)	(65,938)
<b>Total shareholders' equity</b>		<b>532,242,888</b>	<b>531,619,930</b>
Non- controlling interest		-	1,995
<b>Total equity</b>		<b>532,242,888</b>	<b>531,621,925</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,250,997,093</b>	<b>1,303,436,147</b>

Chief Financial Officer

Chief Executive Officer

Chairman

The accompanying notes 1 through 15 form an integral part of these interim consolidated financial statements.

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

**INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD AND YEAR ENDED 31 DECEMBER 2016**  
(Expressed in Saudi Riyals)

	Note	For the three months period ended 31 December		For the year ended 31 December	
		2016 UNAUDITED	2015 UNAUDITED	2016 UNAUDITED	2015 AUDITED
Revenue, net	11	1,385,836,145	1,273,914,288	3,752,284,000	3,744,789,463
Cost of revenue	11	(1,173,642,733 )	(1,097,918,283 )	(3,167,373,101 )	(3,167,254,180 )
<b>Gross profit</b>		<b>212,193,412</b>	<b>175,996,005</b>	<b>584,910,899</b>	<b>577,535,283</b>
Selling and marketing expenses		(137,436,851 )	(133,611,867 )	(453,394,466 )	(419,100,140 )
General and administrative expenses		(30,689,219 )	(29,798,090 )	(107,922,197 )	(103,296,417 )
<b>Operating income</b>		<b>44,067,342</b>	<b>12,586,048</b>	<b>23,594,236</b>	<b>55,138,726</b>
Finance expenses		(345,218 )	(1,120,572 )	(1,787,046 )	(2,733,153 )
Impairment of Property and Equipment	12	(15,619,817 )	-	(15,619,817 )	-
Gain on investments held for trading		-	-	-	1,697,234
Other income (expense), net		1,066,320	637,245	(1,448,360 )	(768,689 )
<b>Income before Zakat</b>		<b>29,168,627</b>	<b>12,102,721</b>	<b>4,739,013</b>	<b>53,334,118</b>
Zakat and tax	6	(1,900,804 )	(2,351,466 )	(3,506,916 )	(4,122,801 )
Deferred tax income (expense)		209,781	(677,245 )	869,564	(32,158 )
<b>Net income for the period</b>		<b>27,477,604</b>	<b>9,074,010</b>	<b>2,101,661</b>	<b>49,179,159</b>
<b>Net income attributable to:</b>					
Shareholders		27,477,604	9,074,185	2,101,661	49,179,334
Non-controlling interest		-	(175 )	-	(175)
<b>Net income for the period</b>		<b>27,477,604</b>	<b>9,074,010</b>	<b>2,101,661</b>	<b>49,179,159</b>
<b>Earnings per share:</b>					
Earnings per share from operating income for the period	9	1.22	0.35	0.66	1.53
Earnings per share from net income for the period	9	0.76	0.25	0.06	1.37

Chief Financial Officer

Chief Executive Officer

Chairman

The accompanying notes 1 through 15 form an integral part of these interim consolidated financial statements.

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

**INTERIM CONSOLIDATED CASH FLOWS (UNAUDITED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
(Expressed in Saudi Riyals)

	2016 (UNAUDITED)	2015 (AUDITED)
<b><u>Cash flows from operating activities:</u></b>		
Net income for the period	2,101,661	49,179,159
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation and amortization	44,448,675	46,350,750
Provision for doubtful debts – trade receivables	220,351	(26,212 )
Provision for doubtful debts - installment sales receivable	8,988,683	1,571,997
Loss from sale of property and equipment	130,522	1,352,106
Provision for inventory	2,758,555	(12,832,222 )
Finance expenses	1,787,046	2,733,153
Deffered revenue on sale and lease back	(961,548 )	(480,614 )
Gain on investment held for trading	-	(1,697,234 )
Zakat provision	3,506,916	4,122,801
Deferred tax (income)/expense	(869,548 )	32,158
Employees' end of service benefits	9,333,121	11,673,349
Impairment of property and equipment	15,619,817	-
	<b>87,064,251</b>	<b>101,979,191</b>
<b><u>Changes in operating assets and liabilities:</u></b>		
Trade receivables	10,167,485	8,469,779
Installment sales receivables	(64,960,735 )	(24,650,454 )
Inventories	104,988,092	26,453,056
Prepayments and other receivables	8,905,772	(9,287,651 )
Trade payables	(69,876,882 )	(32,226,378 )
Accrued expenses and other liabilities	38,581,388	(8,274,333 )
Deferred revenue from additional service program	3,860,540	6,450,565
Employees' end of service benefits paid	(4,194,587 )	(3,633,843 )
Finance expense paid	(1,787,046 )	(2,733,153 )
Board of directors' remunerations	(1,440,000 )	(1,800,000 )
Zakat paid	(3,276,807 )	(3,874,996 )
<b>Net cash provided by operating activities</b>	<b>108,031,471</b>	<b>56,871,783</b>
<b><u>Cash flows from investing activities</u></b>		
Additions to property and equipment	(43,800,074 )	(57,594,337 )
Proceeds from sales and leaseback	-	50,000,000
Proceeds from disposal of property and equipment	977,173	640,482
Additions to intangible assets	(1,192,094 )	(2,845,071 )
Acquisition of shares in subsidiary	(1,995 )	-
Proceeds from sale of investment held for trading	-	4,869,834
Purchase of investment held for trading	-	(3,172,600 )
<b>Net cash used in investing activities</b>	<b>(44,016,990 )</b>	<b>(8,101,692 )</b>
<b><u>Cash flows from financing activities:</u></b>		
Dividend paid	-	(33,000,000 )
Drawdown of Murahaba loan	335,000,000	310,000,000
Murahaba finance repayment	(365,000,000 )	(330,000,000 )
<b>Net cash used in financing activities</b>	<b>(30,000,000 )</b>	<b>(53,000,000 )</b>
<b>Net change in cash and cash equivalents</b>	<b>34,014,481</b>	<b>(4,229,909 )</b>
Movement in foreign exchange translation	(38,703 )	(14,399 )
Cash and cash equivalent at the beginning of the period	66,222,180	70,466,488
<b>Cash and cash equivalents at end of the period</b>	<b>100,197,958</b>	<b>66,222,180</b>
<b><u>Non-Cash transaction:</u></b>		
Trasnfer from retained earning to share capital	-	60,000,000

Chief Financial Officer

Chief Executive Officer

Chairman

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

**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
(Expressed in Saudi Riyals)

	<b>Share Capital</b>	<b>Statutory reserve</b>	<b>Retained earnings</b>	<b>Foreign currency translation reserve</b>	<b>Equity attributable to shareholders of the Company</b>	<b>Non-controlling interest</b>	<b>Total</b>
Balance as at 1 January 2015 (audited)	300,000,000	61,170,955	156,135,579	(51,539)	517,254,995	2170	517,257,165
Net income for the year ended 31 December 2015	-	-	49,179,334	-	49,179,334	(175)	49,179,159
Transfer to statutory reserve	-	4,917,933	(4,917,933)	-	-	-	-
Dividends	-	-	(33,000,000)	-	(33,000,000)	-	(33,000,000)
Board of directors remunerations	-	-	(1,800,000)	-	(1,800,000)	-	(1,800,000)
Capital increase	60,000,000	-	(60,000,000)	-	-	-	-
Foreign currency translation	-	-	-	(14,399)	(14,399)	-	(14,399)
Balance as at 31 December 2015 (audited)	<u>360,000,000</u>	<u>66,088,888</u>	<u>105,596,980</u>	<u>(65,938)</u>	<u>531,619,930</u>	<u>1,995</u>	<u>531,621,925</u>
<b>Balance as at 1 January 2016 (audited)</b>	<b>360,000,000</b>	<b>66,088,888</b>	<b>105,596,980</b>	<b>(65,938)</b>	<b>531,619,930</b>	<b>1995</b>	<b>531,621,925</b>
<b>Net income for the year ended 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>2,101,661</b>	<b>-</b>	<b>2,101,661</b>	<b>-</b>	<b>2,101,661</b>
<b>Transfer to statutory reserves</b>	<b>-</b>	<b>210,166</b>	<b>(210,166)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Board of directors remunerations</b>	<b>-</b>	<b>-</b>	<b>(1,440,000)</b>	<b>-</b>	<b>(1,440,000)</b>	<b>-</b>	<b>(1,440,000)</b>
<b>Foreign currency translation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(38,703)</b>	<b>(38,703)</b>	<b>-</b>	<b>(38,703)</b>
<b>Non-controlling interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,995)</b>	<b>(1,995)</b>
<b>Balance as at 31 December 2016</b>	<u><b>360,000,000</b></u>	<u><b>66,299,054</b></u>	<u><b>106,048,475</b></u>	<u><b>(104,641)</b></u>	<u><b>532,242,888</b></u>	<u><b>-</b></u>	<u><b>532,242,888</b></u>

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Chief Financial Officer

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Chief Executive Officer

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Chairman

The accompanying notes 1 through 15 form an integral of these interim consolidated financial statements.

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD AND YEAR ENDED 31 DECEMBER 2016**  
(Expressed in Saudi Riyals)

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**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

UNITED ELECTRONICS COMPANY (the “Company”) and its Subsidiaries (referred to together as the “Group”) is a Saudi Joint stock Company initially registered in Riyadh under commercial registration No. 1010175357 dated 19 Moharram 1423H (corresponding to 1 April 2002). In 2004, the Company’s registered office was transferred from Riyadh to Al Khobar and, accordingly, the commercial Registration number was changed to 2051029841 dated 10 Jumada II, 1425H (corresponding to 27 July 2004). From 24 December 2011, the shares of the company have been listed on Saudi Stock Exchange “Tadawul”.

As at 31 December 2014 the Company’s share capital was SR 300 million divided into 30 million shares of par value SR 10 each. On 27 April 2015, the Company increased share capital by SR 60 million via a transfer from retained earnings to be SR 360 million divided into 36 million shares with par value of SR 10 each.

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

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

<u>Name of consolidated subsidiaries</u>	<u>Effective ownership</u>	<u>Effective ownership</u>
	<u>2016</u>	<u>2015</u>
1- United Electronics company Extra S.P.C. a company registered in Bahrain	100%	100%
2- United Electronics company Extra L.L.C. a company registered in Oman	100%	100%
3- United Company for Maintenance Services, a Saudi limited liability company	100%	99%
1- United Electronics Company-Extra S.P.C., is registered in Bahrain on 15 Dhul-Qa’da 1432H (corresponding to 13 October 2011). The principal activities of this subsidiary are importing, exporting and trading for electrical and electronics devices and their spare parts, computers and accessories, selling video and audio media materials, importing and exporting computer software and hardware, importing and exporting electronic games, providing maintenance for electric devices in addition to management and development of personal properties.		
2- United Electronics Company-Extra L.L.C. is registered in Oman on 15 Jumada I, 1433H (corresponding to 7 April 2012), the principal activities are retail of computer, non-customized softwares, household appliances (radio, television, refrigerators, crockery etc.), toys, games, satellites and phones.		
3- United Company for Maintenance Services, a Saudi limited liability company incorporated on 10 Rajab 1431H (corresponding to 22 June 2010). The principal activities are maintenance and repair and providing warranty for electronics, digital and electrical devices, home appliances and computers and wholesale trading and spare parts in electrical and digital devices, photocopy and fax machines, telephones, cell phones, video and electric games, digital pocket assistants, printer and computer related devices. United Electronics Company Extra S.P.C.(Bahrain)- a subsidiary- has acquired 1% of the share capital of United Company for Maintenance Services, and accordingly became 100% owned by the Group.		
4- As at 31 December 2016, the Group has a total of 42 branches (31 December 2015: 41 branches) out of which 39 operational branches are in the Kingdom of Saudi Arabia (31 December 2015: 38 branches).		



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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD AND YEAR ENDED 31 DECEMBER 2016**  
(Expressed in Saudi Riyals)

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**2) BASIS OF PREPARATION**

**(a) Statement of compliance**

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

**(b) Basis of measurement**

These interim consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting and the going concern concept.

**(c) Functional and presentation currency**

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

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

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

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

Note 3 (c)	- Accounts receivable / installment sale receivable
Note 3 (d)	- Inventories
Note 3 (j)	- Zakat and income tax
Note 13	- Financial instruments

**3) SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set below have been applied consistently to all periods presented in the interim consolidated financial statements.

**a) Basis of consolidation**

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

**UNITED ELECTRONICS COMPANY AND ITS SUBSIDIARIES**  
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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD AND YEAR ENDED 31 DECEMBER 2016**  
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**3) SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**b) Cash and cash equivalents**

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

**c) Accounts receivable / Installment sale receivable**

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

Instalment Sales Receivables that have fixed or determinable payments are shown as an asset in the balance sheet and classified to short and long term assets based on payment dates. Instalment Sales Receivables are measured at amortised cost using the effective interest method less any impairment.

**d) Inventories**

Inventories are valued at the lower of cost or net realizable value. Cost is determined on the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Appropriate provisions are made for slow moving inventories.

**e) Property and equipment**

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

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

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

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

**UNITED ELECTRONICS COMPANY AND ITS SUBSIDIARIES**  
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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD AND YEAR ENDED 31 DECEMBER 2016**  
(Expressed in Saudi Riyals)

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

**f) Construction under progress**

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

**g) Intangible asset**

Intangible asset is initially recorded at cost and are stated at cost less accumulated amortisation and any impairment in value. The intangible asset comprises of software and its implementation costs. All these costs relating to the software package are deferred and amortized using the straight-line method over a period of five years

**h) Impairment of assets**

**Financial assets**

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

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

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

All impairment losses are recognized in profit or loss.

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

**Non- financial assets**

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

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

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

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

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

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**i) Accounts payable and accruals**

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

**j) Zakat and income tax**

The company is subject to the regulations of the General Authority of Zakat & Tax ("GAZT") in the kingdom of Saudi Arabia. Moreover, the subsidiaries are subject to the relevant laws relating to income tax in the countries where they conduct their activities, whereas the foreign shareholders are subject to income tax computed at 20% of the adjusted net income.

Zakat and Income Tax are calculated on accrual basis. Zakat is calculated on the higher of zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

**k) Deferred Tax**

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

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

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

**m) Revenue recognition**

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

**Revenue from the sale of goods**

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

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

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

**Revenue from extended warranty program and sale of gift cards**

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

Revenues from gift cards are recognized when these cards are redeemed by customers or based on management estimates for cards not to be redeemed.

Revenues from the extended warranty and gift cards are recognized when the following conditions are satisfied:

- The amount is non-refundable;
- An entity concludes, based on available evidence that the likelihood of the customer requiring to fulfill its performance obligation is remote.
- The amount of revenue can be measured reliably;
- There is sufficient expectation that economic benefits will flow to the Group; and
- It is probable that the costs that are charged to the Group with the transaction can be accurately determined.

Management periodically reviews and updates its estimates of revenue recognition calculation based on trends, past experience and cumulative knowledge

**Installment sales**

The Company recognizes the value of goods which are a subject for installment when all the risk and rewards are transferred to the customer, however the installment sales commission is deferred until cash collection based on the received installments.

**Other revenue**

Other revenues are recognized according to the accrual basis.

**n) Expenses**

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

**o) Provisions**

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

**p) Leasing**

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

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

**q) Foreign currency transactions**

**i. Foreign currency transactions**

Transactions denominated in foreign currencies are translated into Saudi Riyals at the exchange rates prevailing at the time of the respective transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to Saudi Riyals at exchange rates prevailing at that date. Gains and losses resulting from changes in exchange rates are recognized in the consolidated statement of income.

**ii. Translation difference on Foreign subsidiaries**

The financial statements of subsidiaries are translated to the functional currency of the parent Company i.e. Saudi Riyal. Gains and losses resulting from changes in exchange rates are recognized as a separate component of equity.

**r) Sale and leaseback – operating lease**

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

**s) Interim results of operations**

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

These interim consolidated financial statements and notes thereto should be read in conjunction with the annual audited consolidated financial statements and related notes for the year ended 31 December 2015.

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

**t) Segmental reporting**

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

**u) Basic and diluted earnings / (losses) per share**

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

**4) CASH AND CASH EQUIVALENTS**

	2016 (Unaudited)	2015 (Audited)
Cash at bank	81,430,316	56,685,759
Cash in hand	18,767,642	9,536,421
	<b>100,197,958</b>	<b>66,222,180</b>

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**5) RELATED PARTIES' TRANSACTIONS AND BALANCES**

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

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

During the period ended 31 December the Company had the following significant transactions with its related parties.

<u>Related Party</u>	<u>Nature of transactions</u>	<u>2016 (Unaudited)</u>	<u>2015 (Audited)</u>
Digital and Electronic Solutions Development Company ("DESD") and its subsidiaries	Purchases	<b>380,188,614</b>	380,775,534

Account payables include balance payable to DESD and its subsidiaries amounting to SR. 631,276 (31 December 2015: SR 12,119,737).

**6) ZAKAT AND TAX PROVISION**

As per the Saudi Regulations, the Saudi Shareholders are subject to Zakat computed at 2.5% of the Zakat base, whereas foreign shareholders are subject to income tax computed at 20% of adjusted net income.

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

**7) SALE AND LEASEBACK**

The Group entered into a contract with another Company for a sale and leaseback of land and building of Dammam branch at a total rental value of SR 69,646,242 million for a period of eighteen years starting from 1 July 2015 until 30 June 2033. The annual rent is being paid in advance at the beginning of each year. This sale resulted in a gain of SR 17,307,837. The Group deferred the recognition of this gain so that it shall be recognized in proportion to the amount of rent expense for the relevant period. The amount so recognized as profits on a monthly basis amounts to SR 80,129.

	<u>2016 (Unaudited)</u>	<u>2015 (Audited)</u>
Deferred revenue from sale and lease back – current portion	<b>961,548</b>	961,548
Deferred revenue from sale and lease back – Non-current portion	<b>14,904,128</b>	15,865,676

**8) MURABAHA FINANCE**

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

	<u>2016 (Unaudited)</u>	<u>2015 (Audited)</u>
Current portion	-	20,000,000
Non-current portion	-	10,000,000
<b>Total</b>	<b>-</b>	<b>30,000,000</b>

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**9) EARNING / LOSS PER SHARE**

Based on the General Assembly resolution on 27 April 2015 the Company issued 6,000,000 shares from its retained profits. As per the requirement of generally accepted accounting standards in the Kingdom of Saudi Arabia, the shares are deemed to be issued from the beginning of the year 2015 i.e. 1 January 2015. Further, the shares for the prior period is also adjusted for the shares issued during the year.

Earning / loss per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period of 36 million shares.

**10) CONTINGENCIES AND CAPITAL COMMITMENT**

Contingencies as at 31 December, comprise of the following:

	<b>2016</b> <b>(Unaudited)</b>	<b>2015</b> <b>(Audited)</b>
Letters of guarantee	<b>33,903,698</b>	56,856,073
Letters of credit	<b>159,320,299</b>	167,688,995

**11) SEGMENTAL REPORTING**

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

There are no intra segment transactions. The details of the results pertaining to Kingdom of Saudi Arabia and subsidiaries results outside the Kingdom with their respective assets and liabilities for the period ended 31 December 2016 and 2015 are as follows:

<b><u>31 December 2016 (Unaudited)</u></b>	<b>Inside the Kingdom of Saudi Arabia</b>	<b>Outside the Kingdom of Saudi Arabia</b>	<b>Consolidation adjustments</b>	<b>Total</b>
Revenue, net	3,522,655,929	232,691,413	(3,063,342)	3,752,284,000
Cost of revenue	(2,967,768,985)	(202,667,458)	3,063,342	(3,167,373,101)
Gross profit	<u>554,886,944</u>	<u>30,023,955</u>	<u>-</u>	<u>584,910,899</u>
Net income (loss) for the period	<u>25,326,674</u>	<u>(23,225,013)</u>	<u>-</u>	<u>2,101,661</u>
Current assets	781,170,382	50,157,031	(61,260,995)	770,066,418
Non-current assets	413,895,749	60,180,948	6,853,978	480,930,675
Total Assets	<u>1,195,066,131</u>	<u>110,337,979</u>	<u>(54,407,017)</u>	<u>1,250,997,093</u>
Current liabilities	581,967,095	114,400,356	(61,260,995)	635,106,456
Non-current liabilities	80,751,503	2,896,246	-	83,647,749
Total Liabilities	<u>662,718,598</u>	<u>117,296,602</u>	<u>(61,260,995)</u>	<u>718,754,205</u>



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**11) SEGMENTAL REPORTING (Continued)**

<u>31 December 2015 (Audited)</u>	<u>Inside the Kingdom of Saudi Arabia</u>	<u>Outside the Kingdom of Saudi Arabia</u>	<u>Consolidation adjustments</u>	<u>Total</u>
Revenue, net	3,534,835,584	209,953,879	-	3,744,789,463
Cost of revenue	(2,985,236,253)	(182,017,927)	-	(3,167,254,180)
Gross profit	549,599,331	27,935,952	-	577,535,283
Net profit (loss) for the period	55,728,743	(6,549,584)	-	49,179,159
Current assets	866,847,297	50,906,978	(99,082,870)	818,671,405
Non-current assets	374,077,368	79,120,239	31,567,135	484,764,742
Total Assets	1,240,924,665	130,027,217	(67,515,735)	1,303,436,147
Current liabilities	627,548,704	160,043,394	(99,082,870)	688,509,228
Non-current liabilities	81,490,558	1,814,436	-	83,304,994
Total Liabilities	709,039,262	161,857,830	(99,082,870)	771,814,222

**12) IMPAIRMENT OF PROPERTY AND EQUIPMENT**

Based on the impairment test of property and equipment performed to the group by an independent party during the year ended December 31, 2016 which revealed impairment of certain property and equipment. Accordingly, the value of such property and equipment were impaired to its recoverable amount.

**13) FINANCIAL INSTRUMENTS**

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

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

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

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

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

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

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

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**14) COMPARATIVE FIGURES**

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

**15) APPROVAL OF FINANCIAL STATEMENTS**

These interim consolidated financial statements were approved by the Board of Directors of the Company on 17 January 2017 corresponding to 19 Rabi II, 1438H.