

**SAUDI COMPANY FOR HARDWARE**  
**(A Saudi Joint Stock Company)**

INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE  
THREE-MONTH AND NINE-MONTH PERIODS ENDED  
SEPTEMBER 30, 2016 AND LIMITED REVIEW REPORT

**SAUDI COMPANY FOR HARDWARE**  
**(A Saudi Joint Stock Company)**  
**Interim financial statements (unaudited)**  
**For the three and nine-month periods ended September 30, 2016**

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## **LIMITED REVIEW REPORT**

October 17, 2016

To the Shareholders of Saudi Company for Hardware  
(A Saudi Joint Stock Company)

### **Scope of review**

We have reviewed the accompanying interim balance sheet of Saudi Company for Hardware (the "Company") as of September 30, 2016 and the interim income statement for the three and nine-month periods ended September 30, 2016, and the interim statement of cash flows and changes in shareholders' equity for the six-month period then ended, and the related notes from (1) to (11) which form an integral part of these interim financial statements. These interim 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 limited review in accordance with the standard of Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### **Review conclusion**

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

**PricewaterhouseCoopers**

A blue ink signature, appearing to be 'Khalid A. Mahdhar', written over a horizontal line.

By:

Khalid A. Mahdhar  
License Number 368

**SAUDI COMPANY FOR HARDWARE**  
**(A Saudi Joint Stock Company)**  
**Interim balance sheet (unaudited)**  
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	As at September 30,	
		2016	2015
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		27,828,053	24,338,224
Accounts receivables		11,144,535	10,792,248
Inventories		521,095,658	547,171,130
Prepayments and other receivables		52,541,809	57,964,493
		<u>612,610,055</u>	<u>640,266,095</u>
<b>Non-current assets</b>			
Available-for-sale investment		8,260,452	8,260,452
Property and equipment	1	200,315,437	163,835,970
Pre-operating expenses		4,755,742	7,751,944
		<u>213,331,631</u>	<u>179,848,366</u>
<b>Total assets</b>		<u>825,941,686</u>	<u>820,114,461</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings and bank overdrafts	4	36,900,805	81,943,882
Current maturity of medium-term borrowings	4	21,008,694	14,074,334
Accounts payable		113,073,209	130,924,803
Accrued and other liabilities		90,789,394	75,515,934
Accrued zakat		7,210,903	7,372,785
		<u>268,983,005</u>	<u>309,831,740</u>
<b>Non-current liabilities</b>			
Medium-term borrowings	4	20,899,813	15,111,147
Employee termination benefits		30,838,217	28,643,723
		<u>51,738,030</u>	<u>43,754,870</u>
<b>Total liabilities</b>		<u>320,721,035</u>	<u>353,586,610</u>
<b>Shareholders' equity</b>			
Share capital	5	240,000,000	240,000,000
Statutory reserve	6	40,090,639	27,821,511
Retained earnings		225,130,012	198,706,340
<b>Total shareholders' equity</b>		<u>505,220,651</u>	<u>466,527,851</u>
<b>Total liabilities and shareholders' equity</b>		<u>825,941,686</u>	<u>820,114,461</u>
<b>Contingencies and commitments</b>	9		

The notes on pages 6 to 12 form an integral part of these interim financial statements.

**SAUDI COMPANY FOR HARDWARE**  
**(A Saudi Joint Stock Company)**

**Interim income statement (unaudited)**

(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the three-month period ended September 30,		For the nine-month period ended September 30,	
		2016	2015	2016	2015
Sales, net and other revenues		284,965,908	265,363,683	939,667,214	924,171,412
Cost of sales and occupancy		(233,161,149)	(213,630,622)	(756,878,633)	(732,869,264)
Gross profit		51,804,759	51,733,061	182,788,581	191,302,148
<b>Operating expenses</b>					
Selling, marketing, general and administrative expenses		(28,962,025)	(30,802,777)	(89,639,935)	(95,700,860)
Income from operations		22,842,734	20,930,284	93,148,646	95,601,288
<b>Other income (expenses)</b>					
Financial charges		(915,337)	(594,907)	(4,047,731)	(2,281,917)
Other income		389,479	268,791	2,013,821	1,202,094
Income before zakat		22,316,876	20,604,168	91,114,736	94,521,465
Zakat		(1,945,435)	(2,108,400)	(6,327,503)	(6,320,050)
<b>Net income for the period</b>		<b>20,371,441</b>	<b>18,495,768</b>	<b>84,787,233</b>	<b>88,201,415</b>
<b>Earnings per share (Saudi Riyals):</b>	7				
Income from operations		0.95	0.87	3.88	3.98
Net income for the period		0.85	0.77	3.53	3.68
Weighted average number of shares		24,000,000	24,000,000	24,000,000	24,000,000

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**SAUDI COMPANY FOR HARDWARE**  
**(A Saudi Joint Stock Company)**

**Interim statement of cash flows (unaudited)**  
 (All amounts in Saudi Riyals unless otherwise stated)

	<b>For the nine-month period ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flow from operating activities</b>		
Net income for the period	84,787,233	88,201,415
<u>Adjustments for non-cash items</u>		
Depreciation and amortization	24,483,916	22,266,437
Loss on disposal of property and equipment	184,493	44,888
Inventory written-off, net	9,031,214	10,245,942
Provision for slow moving items and inventory shortages	842,461	2,289,386
Provision for employee end of service benefits	4,798,037	3,623,513
Provision for doubtful debts	195,210	188,604
Provision for zakat	6,327,503	6,320,050
<u>Changes in working capital</u>		
Accounts receivables	6,124,525	4,435,794
Inventories	46,841,116	(29,275,701)
Prepayments and other receivables	12,688,744	(7,330,465)
Accounts payable	22,253,872	39,136,940
Accrued and other current liabilities	2,175,113	(1,367,584)
Zakat paid	(8,597,787)	(6,804,923)
Employee end of service benefits paid	(2,113,288)	(2,800,588)
Net cash generated from operating activities	210,022,362	129,173,708
<b>Cash flow from investing activities</b>		
Purchase of property and equipment	(52,697,538)	(30,198,652)
Additions to pre-operating expenses	-	(411,897)
Proceeds from disposal of property and equipment	3,270	55,362
Net cash utilized in investing activities	(52,694,268)	(30,555,187)
<b>Cash flow from financing activities</b>		
Changes in short-term borrowings	(83,295,696)	(57,693,746)
Proceeds from medium-term borrowings	9,203,322	-
Repayments of medium term borrowings	(43,891,922)	(21,771,329)
Dividends paid	(35,935,642)	-
Net cash utilized in financing activities	(153,919,938)	(79,465,075)
<b>Net change in cash and cash equivalents</b>	3,408,156	19,153,446
Cash and cash equivalents at beginning of period	24,419,897	5,184,776
Cash and cash equivalents at end of period	27,828,053	24,338,222

The notes on pages 6 to 12 form an integral part of these interim financial statements.

**SAUDI COMPANY FOR HARDWARE**  
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**Interim statement of changes in shareholders' equity**  
(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Total
<b>January 1, 2016 (audited)</b>	<b>240,000,000</b>	<b>31,612,067</b>	<b>184,821,351</b>	<b>456,433,418</b>
Net income for the nine-month period ended September 30, 2016	-	-	84,787,233	84,787,233
Dividends declared	-	-	(36,000,000)	(36,000,000)
Transferred to statutory reserve	-	8,478,572	(8,478,572)	-
<b>September 30, 2016</b> (unaudited)	<b>240,000,000</b>	<b>40,090,639</b>	<b>225,130,012</b>	<b>505,220,651</b>
<b>January 1, 2015 (audited)</b>	<b>240,000,000</b>	<b>19,001,369</b>	<b>119,325,067</b>	<b>378,326,436</b>
Net income for the nine-month period ended September 30, 2015	-	-	88,201,415	88,201,415
Transferred to statutory reserve	-	8,820,142	(8,820,142)	-
<b>September 30, 2015</b> (unaudited)	<b>240,000,000</b>	<b>27,821,511</b>	<b>198,706,340</b>	<b>466,527,851</b>

The notes on pages 6 to 12 form an integral part of these interim financial statements.

**SAUDI COMPANY FOR HARDWARE**  
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**Notes to the interim financial statements (unaudited) for the three months and nine-month periods ended September 30, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

**1 General information**

Saudi Company for Hardware (the "Company") is a Saudi joint stock company registered in the Kingdom of Saudi Arabia under commercial registration number 1010056595 issued in Riyadh on Safar 26, 1405H (November 19, 1984). The registered address of the Company is P.O. Box 86387, Riyadh 11622, Kingdom of Saudi Arabia.

The Company is principally engaged in retailing and wholesaling of household and office supplies and appliances, construction tools and equipment, and electrical tools and hardware.

The shareholders in their meeting held on February 23, 2011 resolved to convert the Company from a limited liability company to a closed joint stock company and to revise the shareholding structure. Accordingly, the Company was incorporated as a Saudi closed joint stock company pursuant to Ministry of Commerce and Industry Resolution No. 178/Q dated Jumada I 26, 1432H (corresponding to April 30, 2011). The legal formalities for such conversion and revision in shareholding were completed during the year ended December 31, 2011.

The Capital Market Authority ("Commission") announced on Jumada II 5, 1436H (corresponding to March 25, 2015) for the issuance of the CMA board the decision to approve the launch of 7,200,000 shares in the Company initial public offering which represents 30% of the total shares of the Company's 24,000,000 shares in which it was allocated to investment funds and authorized person companies. The Company's shares were listed in the Saudi Stock Market ("Tadawul") on Shaban 23, 1436H (corresponding to May 12, 2015). The offered shares were reduced from the current shareholders shares who received the proceeds and bared the costs of offering.

At September 30, 2016, the total number of stores operated by the Company in the Kingdom of Saudi Arabia were 24 owned stores and 2 franchise stores, (September 30, 2015: 23 owned stores and 2 franchise stores) and the Company has workshop center for maintenance and installation, The property and equipment represents the cost related to opening two new stores, in addition to the cost added to the construction on progress balance related to the Company's new head office building.

On October 27, 2015, the Company signed a memorandum of understanding for six-months, renewable upon the approval of both parties, to acquire MedScan Terminal, a Saudi limited liability company registered in the Eastern Province of Saudi Arabia and engaged in goods transportation, logistics and storing. The acquisition was approved by the General Assembly on their meeting held on April 20, 2016 by SR 37 million. The legal proceeding needed to be finalized the acquisition, has not yet finalized at the date of the approval of these financial statements.

The accompanying interim financial statements include the accounts of the Company and its leased stores and the workshop center, operating under separate commercial registrations as September 30, 2016:

<u>Stores</u>	<u>Location</u>	<u>Commercial registration no.</u>
Takhassusi	Riyadh	1010056595
Woroud	Riyadh	1010065245
Hamra	Riyadh	1010154852
Badiaa	Riyadh	1010276497
Rimal	Riyadh	1010289426
Khurais	Riyadh	1010144072
Al Qasr	Riyadh	1010322479
Northern Ring Road	Riyadh	1010201062
Alia Plaza	Riyadh	1010409935
Al Thagher Plaza	Riyadh	1010430261
Buraydah	Qasim	1131020838
Anadlus	Jeddah	4030104324
Tahlia	Jeddah	4030061896
Prince Sultan Road	Jeddah	4030198058
Sawari	Jeddah	4030268514
Medina	Medina	4650039295
Yanbu	Yanbu	4700012605
Dammam	Dammam	2050030529
Dhahran	Dhahran	2052000780
Jubail	Jubail	2055004380
Al Ahsa	Al Ahsa	2252026146
Jazan	Jazan	5900031715
Hail (new store)	Hail	3350043304
Onaizah (new store)	Onaizah	1128019513
<u>Workshop</u>		
Workshop Center	Riyadh	1010293034

**SAUDI COMPANY FOR HARDWARE**  
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**Notes to the interim financial statements (unaudited) for the three months and nine-month periods ended September 30, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

These interim financial statements were authorized for issue by the Board of Directors on October 17, 2016.

**1.1 Interim financial statements**

The Company prepares interim financial statements in accordance with Accounting Standards Generally Accepted in Saudi Arabia promulgated by Saudi Organization for Certified Public Accountants ("SOCPA"). Each period is considered integral part of the financial year. Related revenues, expenses, and reserves to the financial period are recognized and presented in the interim financial statement in the same period. The results of the operations for the interim period may not represent a proper indication of the annual results of operations. These interim financial statements should be read in conjunction with annual financial statements for the year ended December 31, 2015 and its related notes.

**2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these interim financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

**2.1 Basis of preparation**

The accompanying interim financial statements have been prepared under the historical cost convention except for available for sales investments which measured at fair value and on the accrual basis of accounting and in compliance with the accounting standards promulgated by the Saudi Organization for Certified Public Accountants (SOCPA).

**2.2 Critical accounting estimates and judgments**

The preparation of interim financial statements in conformity with generally accepted accounting standards requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

**(a) Slow moving inventory items and shortages**

Provision for slow moving inventories is maintained at a level considered adequate to provide for potential loss on inventory items. The level of allowance is determined and guided by the Company's policy and other factors affecting the obsolescence of inventory items. An evaluation of inventories, designed to identify potential charges to provision, is performed by the management on regular intervals. Management uses judgment based on the best available facts and circumstances including, but not limited to, evaluation of individual inventory items' age and obsolescence and its expected utilization and consumption in future. The amount and timing of recorded expenses for any period would therefore differ based on the judgments or estimates made.

**(b) Cost of sale and occupancy**

Management use estimates to ensure consistent basis is used to allocate charges between cost of sales and occupancy, and general, administrative, selling and marketing expenses.

**(c) Estimated useful life of property and equipment**

Management assesses useful lives and residual value of property and equipment on intended use of assets and the economic lives of the assets. Subsequent changes in circumstances such as technological advances could result in the actual useful lives or residual values differing from the initial estimates. Management has reviewed the residual value and useful lives of major property and equipment and determined that no adjustment is necessary.

**2.3 Foreign currency translations**

**(a) Reporting currency**

The interim financial statements of the Company are presented in Saudi Riyals which is the reporting currency of the Company.

**SAUDI COMPANY FOR HARDWARE**  
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**Notes to the interim financial statements (unaudited) for the three months and nine-month periods ended September 30, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

**(b) Transactions and balances**

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which were not significant for the two periods ended September 30, 2016 and 2015, are recognized in the interim statement of income.

**2.4 Cash and cash equivalents**

Cash and cash equivalents include cash on hand and in banks and other short-term highly liquid investments, if any, with maturities of three months or less from the purchase date, if any.

**2.5 Accounts receivable**

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the interim statement of income and reported under "selling, marketing, general and administrative expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "selling, marketing, general and administrative expenses" in the interim statement of income.

**2.6 Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the moving 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.

**2.7 Property and equipment**

Property and equipment are carried at cost less accumulated depreciation except projects in progress which is carried at cost. Depreciation is charged to the interim statement of income, using straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
Furniture and fixtures	2.5 - 20
Computer hardware and software	2 - 7
Vehicles	4
Tools and equipment	4 - 7

Leasehold improvements are being amortized on the straight-line basis over the shorter of useful life or lease period.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the interim statement of income.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the interim statement of income as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

**2.8 Pre-operating expenses**

Pre-operating expenses consist of expenses which have future benefits incurred in connection with establishing new stores. Such expenses are being amortized on the straight-line basis over a period of five to seven years starting with commencement of the respective store's operations.

**2.9 Available-for-sale investment**

Available-for-sale investment represent long-term investment in a foreign supplier's equity carried at cost, which represents the fair value, as no reliable market value available for it. Income on such patronage shares is recognized when the right to receive such income is established.

**SAUDI COMPANY FOR HARDWARE**  
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**Notes to the interim financial statements (unaudited) for the three months and nine-month periods ended September 30, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

**2.10 Impairment of non-current assets**

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. 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 the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the interim statement of income. Impairment of goodwill is not reversed.

**2.11 Borrowings**

Borrowings are recognized equivalent to the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the interim statement of income.

**2.12 Accounts payable and accruals**

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

**2.13 Provisions**

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

**2.14 Zakat**

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). Provision for zakat for the Company is charged to the interim statement of income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

**2.15 Provision for employee end of service benefits**

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the interim statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the interim balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

**2.16 Earnings per share**

Earnings per share is calculated using the weighted average number of shares outstanding during the period.

**2.17 Sales and services revenue**

Retail stores' sales are on cash basis and are being recognized on a receipt basis. Revenues from wholesale and sales of goods on consignment are being recognized upon delivery of goods to the customers. Revenues are shown net of discounts. Income from services is recognized when services are rendered.

**2.18 Costs and expenses**

**2.18.1 Cost of sales and occupancy**

Represent the cost of sales and occupancy incurred during the period, and include the costs of goods ready for sale, direct labor and other overheads related to the sales and other revenues recognized.

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**Notes to the interim financial statements (unaudited) for the three months and nine-month periods ended September 30, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

**2.18.2 Selling and marketing expenses**

Represent expenses resulting from the Company's management efforts with regard to the marketing function or the selling and distribution function. Selling and marketing expenses include direct and indirect costs not specifically part of cost of sales and occupancy. Allocations between selling and marketing expenses and cost of sales and occupancy, when required, are made on a consistent basis.

**2.18.3 General and administrative expenses**

Represent expenses relating to the administration and not to the revenue earning function or the selling and distribution functions. General and administrative expenses include direct and indirect costs not specifically part of cost of sales and occupancy. Allocations between general and administrative expenses and cost of sales and occupancy, when required, are made on a consistent basis.

**2.19 Dividends declared**

Dividends are recorded in the financial statements in the period in which they are approved by shareholders of the Company or under paid.

**2.20 Operating leases**

Rental expenses under operating leases are charged to the interim statement of income over the period of the respective lease. Rental income under sub-lease arrangements entered by the Company as a lessor is recognized on the accrual basis in accordance with the terms of the contracts.

**2.21 Segment information**

**A) Business segment**

*A business segment is a group of assets, operations or entities:*

- Engaged in revenue producing activities;
- Results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- Financial information is separately available.

**B) Geographical segment**

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

**2.22 Reclassifications**

Certain comparative figures have been reclassified to conform with the current period presentation.

**3 Financial instruments and risk management**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and fair value and cash flow interest rate risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by senior management. The most important types of risk are summarized below.

Financial instruments carried on the interim balance sheet include cash and cash equivalents, accounts and other receivables, available for sale investments borrowings, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

A financial asset and liability is offset and net amounts reported in the interim financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

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**Notes to the interim financial statements (unaudited) for the three months and nine-month periods ended September 30, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

**3.1 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and US dollars. As the Saudi riyal is pegged to the US dollar, the Company does not have significant exposure to currency risk.

**3.2 Fair value and cash flow interest rate risks**

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial positions and cash flows. The Company's interest rate risks arise mainly from its short-term borrowings, which are at floating rate and are subject to repricing on a regular basis. The Company's 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.

**3.3 Credit risk**

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

**3.4 Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell 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 the Company's future commitments.

**3.5 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's 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's financial assets and liabilities are not materially different from their carrying values.

**4 Bank facilities**

The Company has obtained borrowing facilities in the amount of SR 445.6 million from various local banks of which SR 166 million were used as of September 30, 2016. Such facilities provide facilities for short and medium term borrowings and overdrafts, Islamic hedging foreign currencies, letters of credit and guarantee and notes payable for bills of exchange to finance working capital and capital expenditures. These facilities, which are in form of Murabaha and Tawarroq financing, bear financial charges at prevailing market rates based on Saudi Inter-bank Offer Rate ("SIBOR") and Riyadh Inter-bank Offer Rate ("Ribor"). These facility agreements include covenants which require maintenance of certain financial ratios, restrict payments of dividends and other requirements. These facilities as of September 30, 2016 include a loan in the amount of SR 25 million for the construction of the Company's Head Office building and the land of the Head Office with the book value of SR 17.7 million was designated as a collateral against this loan.

**5 Share capital**

The share capital of the Company as of September 30, 2016 SR 240,000,000 consists of 24,000,000 shares (September 30, 2015: 24,000,000 shares) with a nominal value of SR 10 per share.

**6 Statutory reserve**

In accordance with the new Regulations for Companies in the Kingdom of Saudi Arabia and its By-laws, the Company transfers at least 10% of the net income to a statutory reserve until such reserve equals 30% (50% previously) of its share capital. This reserve is currently not available for distribution to the shareholders of the Company.

**7 Earnings per share**

Earnings per share has been computed for the two periods ended September 30, 2016 and 2015 by dividing the income from operations and net income for the two period over the weighted average number of outstanding shares amounting to 24,000,000 shares.

**SAUDI COMPANY FOR HARDWARE**  
(A Saudi Joint Stock Company)

**Notes to the interim financial statements (unaudited) for the three months and nine-month periods ended September 30, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

**8 Dividends declared**

The Company's Board of Directors have approved in its meeting held on April 19, 2016 dividends distribution amounting to Saudi Riyals 36 million which represents within Saudi Riyals 1.5 per share.

**9 Contingencies and commitments**

- a) The Company had outstanding letters of credit and guarantee at September 30, 2016 amounting to approximately Saudi Riyals 85.75 million (September 30, 2015: Saudi Riyals 81,8 million) and letters of guarantee amounting to approximately Saudi Riyals 1,5 million (September 30, 2015: Saudi Riyals 1,6 million).
- b) The capital commitments related to on-going activities of various stores amounted to Saudi Riyals 35 million as of September 30, 2016 (September 30, 2015: Saudi Riyals 42,5 million).
- c) As at September 30, 2016, the Company has future lease commitments under operating leases of Saudi Riyals 585 million (September 30, 2015: Saudi Riyals 550 million).

**10 Segment information**

Summarized segment information are as follows:

2016	For three-month period ended September 30, 2016			For nine-month period ended September 30, 2016		
	Sales, net and other revenues	Cost of Sales and occupancy	Gross profit	Sales, net and other revenues	Cost of Sales and occupancy	Gross profit
Retail segment	281,093,221	(229,597,516)	51,495,705	928,080,794	(746,552,965)	181,527,829
Wholesale segment	3,872,687	(3,563,633)	309,054	11,586,420	(10,325,668)	1,260,752
Total	284,965,908	(233,161,149)	51,804,759	939,667,214	(756,878,633)	182,788,581

  

2015	For three-month period ended September 30, 2016			For nine-month period ended September 30, 2016		
	Sales, net and other revenues	Cost of Sales and occupancy	Gross profit	Sales, net and other revenues	Cost of Sales and occupancy	Gross profit
Retail segment	261,476,744	(210,213,604)	51,263,140	912,097,210	(722,313,455)	189,783,755
Wholesale segment	3,886,939	(3,417,018)	469,921	12,074,202	(10,555,809)	1,518,393
Total	265,363,683	(213,630,622)	51,733,061	924,171,412	(732,869,264)	191,302,148

The company does not classify any financial data as opposed to above information on its assets and liabilities. All of the company's operations are in Saudi Arabia. The company started from 2016 to change the presentation of its segmental information based on the change in the management insight of its business sector with inclusion of comparative segmental information.

**11 Subsequent events**

The Company's Board of Directors have recommended in its meeting held on October 16, 2016 dividends distribution amounting Saudi Riyals 36 million which represents within Saudi Riyals 1.5 per share.