

**Abdullah Al-Othaim Markets Company**  
(A Saudi Joint Stock Company)  
**Consolidated Financial Statements**  
**For the year ended 31 December 2015**  
together with the  
**Independent Auditor's Report**

**Abdullah Al-Othaim Markets Company**  
**(A Saudi Joint Stock Company)**  
**Consolidated Financial Statements**  
**For the year ended 31 December 2015**

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## INDEPENDENT AUDITOR'S REPORT

To: **The Shareholders of Abdullah Al-Othaim Markets Company**  
**(A Joint Stock Company)**  
**Riyadh, Kingdom of Saudi Arabia**

We have audited the accompanying consolidated financial statements of **Abdullah Al-Othaim Markets Company** ("the Company") and its subsidiaries (collectively the "Group") which comprise the consolidated balance sheet as at 31 December 2015, and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 28 which form an integral part of the consolidated financial statements.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article (123) of the Regulations for Companies and the Company's by-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

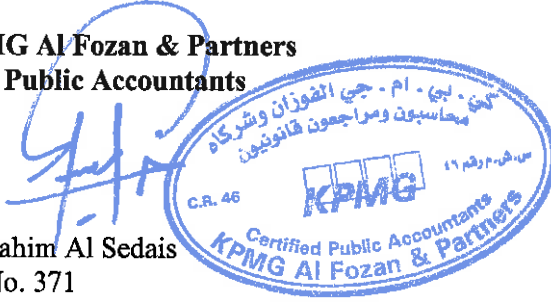


## **Opinion**

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

- 1) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015, the results of its operations and its consolidated cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and
- 2) comply with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of financial statements.

**For KPMG Al Fozan & Partners  
Certified Public Accountants**



Khalil Ibrahim Al Sedais  
License No. 371

Riyadh on 13 Jumada'I 1437H  
Corresponding to: 22 February 2016

**Abdullah Al-Othaim Markets Company**  
(A Saudi Joint Stock Company)  
**CONSOLIDATED BALANCE SHEET**  
As at 31 December 2015  
(Saudi Riyals)

<u>ASSETS</u>	<u>Note</u>	<u>2015</u>	<u>2014</u>
<b>Current assets</b>			
Cash and cash equivalents	(4)	329,426,125	183,489,491
Inventories	(5)	603,995,906	465,505,782
Trade receivables		28,194,855	2,105,268
Prepayments and other current assets	(6)	239,154,945	135,042,243
<b>Total current assets</b>		<u>1,200,771,831</u>	<u>786,142,784</u>
<b>Non-current assets</b>			
Investments in equity accounted investee	(7)	169,644,532	178,831,391
Investments – available for sale		16,645,447	17,457,077
Property and equipment	(8)	1,226,961,725	865,533,013
Investment properties	(9)	467,994,270	492,908,496
Biological assets	(10)	796,900	1,233,266
Intangible assets	(11)	11,359,330	13,107,462
<b>Total non-current assets</b>		<u>1,893,402,204</u>	<u>1,569,070,705</u>
<b>TOTAL ASSETS</b>		<u>3,094,174,035</u>	<u>2,355,213,489</u>
 <b><u>LIABILITIES AND EQUITY</u></b>			
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables		927,325,129	879,450,093
Short term loans and murabahas	(12a)	20,061,386	17,999,510
Current portion of long term loans and murabahas	(12b)	192,213,333	100,000,000
Notes payable		31,240,285	--
Accrued expenses and other current liabilities	(14)	281,137,008	221,935,077
<b>Total current liabilities</b>		<u>1,451,977,141</u>	<u>1,219,384,680</u>
<b>Non-current liabilities</b>			
Long term loans and murabahas	(12b)	399,500,000	125,000,000
Employees' end of service benefits		69,944,667	56,578,898
<b>Total non-current liabilities</b>		<u>469,444,667</u>	<u>181,578,898</u>
<b>TOTAL LIABILITIES</b>		<u>1,921,421,808</u>	<u>1,400,963,578</u>
 <b>SHAREHOLDERS' EQUITY</b>			
Share capital		450,000,000	450,000,000
Statutory reserve	(16)	44,565,425	21,477,889
Other reserves	(17)	717,505	--
Retained earnings		610,213,817	481,175,991
Unrealized loss from Investments in available for sale securities		(860,639)	(49,012)
<b>Equity attributable to shareholders</b>		<u>1,104,636,108</u>	<u>952,604,868</u>
<b>Non-controlling interest</b>		<u>68,116,119</u>	<u>1,645,043</u>
<b>Total equity</b>		<u>1,172,752,227</u>	<u>954,249,911</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>3,094,174,035</u>	<u>2,355,213,489</u>

The accompanying notes (1) to (28) form an integral part of these consolidated financial statements.

**Abdullah Al-Othaim Markets Company**  
(A Saudi Joint Stock Company)  
**CONSOLIDATED STATEMENT OF INCOME**  
For the year ended 31 December 2015  
(Saudi Riyals)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Sales		6,035,801,745	5,251,902,161
Cost of sales		<u>(5,037,330,186)</u>	<u>(4,380,774,939)</u>
<b>Gross profit</b>		<b>998,471,559</b>	<b>871,127,222</b>
Rental income, net	(24)	62,216,356	52,798,485
Selling and distribution expenses	(22)	<b>(765,122,696)</b>	(649,453,287)
General and administrative expenses	(23)	<u>(85,791,179)</u>	<u>(71,935,096)</u>
<b>Income from operations</b>		<b>209,774,040</b>	<b>202,537,324</b>
Share in profits from investments	(7)	27,252,405	20,330,101
Finance expense		<b>(9,048,026)</b>	(7,202,145)
Other income, net		6,496,708	4,177,833
<b>Net income before zakat, income tax and non-controlling interest</b>		<b>234,475,127</b>	<b>219,843,113</b>
Zakat and income tax	(15)	<u>(5,322,531)</u>	<u>(5,288,864)</u>
<b>Net income before non-controlling interest</b>		<b>229,152,596</b>	<b>214,554,249</b>
Non-controlling interest in net loss of the subsidiaries		1,722,766	224,634
<b>Net income for the year</b>		<u><b>230,875,362</b></u>	<u><b>214,778,883</b></u>
<b>Earnings per share from:</b>	<b>(18)</b>		
Operations		<u>4.66</u>	<u>4.50</u>
Other income		<u>0.54</u>	<u>0.38</u>
Net income		<u>5.13</u>	<u>4.77</u>
Weighted average number of shares		<u>45,000,000</u>	<u>45,000,000</u>

The accompanying notes (1) to (28) form an integral part of these consolidated financial statements.

**Abdullah Al-Othaim Markets Company**  
(A Saudi Joint Stock Company)  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2015  
(Saudi Riyals)

	<i>Note</i>	<u>2015</u>	<u>2014</u>
<b>OPERATING ACTIVITIES</b>			
Net income for the year before zakat, tax and non-controlling interest		234,475,127	219,843,113
<i>Adjustments to reconcile net income to net cash generated from operating activities</i>			
Depreciation		127,345,794	101,127,996
Amortization		1,748,132	1,798,227
(Gain)/loss on disposal of property and equipment		(7,179)	229,557
Loss / (gain) on disposal of biological assets		139,577	(339,053)
Company's share in the net profits of associated companies		(26,884,447)	(20,330,101)
End of service benefits provision, net		9,387,507	8,087,862
<i>Changes in working capital:</i>			
Inventories		(94,339,936)	(97,495,671)
Trade receivables, net		93,012	(2,105,268)
Prepayments and other current assets		(86,560,424)	(44,736,952)
Trade payables, Accrued expenses and other current liabilities		54,635,349	210,875,197
Impact of subsidiaries consolidated during the year		-	618,315
Zakat paid		(4,109,267)	(3,102,136)
<b>Net cash generated by operating activities</b>		<u>215,923,245</u>	<u>374,471,086</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(402,197,581)	(235,143,824)
Purchase of investment properties		(132,206)	(2,762,978)
Investments in equity accounted investees		(26,124,563)	(10,818,399)
Purchase of biological assets		(2,544)	(435,733)
Dividends received from investments		27,625,000	27,625,000
Proceeds from sale of property and equipment		3,810,101	1,439,906
Proceeds from sale of biological assets		-	1,127,487
<b>Net cash used in investing activities</b>		<u>(397,021,793)</u>	<u>(218,968,541)</u>
<b>FINANCING ACTIVITIES</b>			
Cash dividends		(78,750,000)	(67,500,000)
Proceed from Loans and Murabaha		2,243,500,205	1,218,661,285
Repayments of Loans and Murabaha		(1,874,724,996)	(1,233,505,327)
Non-controlling interest due to acquisition of interest in subsidiary		33,050,857	--
Notes payable		3,553,448	--
<b>Net cash generated by / (used) in financing activities</b>		<u>326,629,514</u>	<u>(82,344,042)</u>
Net increase in cash and cash equivalents		145,530,966	73,158,503
Cash and cash equivalents at beginning of the year		183,489,491	110,330,988
Cash acquired from acquisition of subsidiary		405,668	--
<b>Cash and cash equivalents at end of the year</b>		<u>329,426,125</u>	<u>183,489,491</u>
<b>Non - cash transactions</b>			
Unrealized loss from investment in available for sale securities		(811,627)	(184,600)
Increase in share capital through retained earnings, statutory reserve and voluntary reserve		--	225,000,000
Other reserves	5	<u>717,508</u>	--

The accompanying notes (1) to (28) form an integral part of these consolidated financial statements.

**Abdullah Al-Othaim Markets Company**  
(A Saudi Joint Stock Company)  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2015

	Share Capital	Statutory reserve	Voluntary reserve	Retained earnings	Unrealized loss from Investments - available for sale securities	Other reserves	Equity Attributable to the shareholders of company	Non- controlling interest	Total
<b>Balance at 1 January 2015</b>	450,000,000	21,477,889	--	481,175,991	(49,012)	--	952,604,868	1,645,043	954,249,911
Net income for the year	--	--	--	230,875,362	--	--	230,875,362	(1,722,766)	229,152,596
Transfer to statutory reserve	--	23,087,536	--	(23,087,536)	--	--	--	--	--
Unrealized loss on investment in available for sale securities	--	--	--	--	(811,627)	--	(811,627)	--	(811,627)
Cash dividends	--	--	--	(78,750,000)	--	--	(78,750,000)	--	(78,750,000)
Other reserves - (note 17)	--	--	--	--	--	717,505	717,505	--	717,505
Acquisition of interest in subsidiary	--	--	--	--	--	--	--	68,193,842	68,193,842
<b>Balance at 31 December 2015</b>	<b>450,000,000</b>	<b>44,565,425</b>	<b>--</b>	<b>610,213,817</b>	<b>(860,639)</b>	<b>717,505</b>	<b>1,104,636,108</b>	<b>68,116,119</b>	<b>1,172,752,227</b>
<b>Balance at 1 January 2014</b>	225,000,000	93,409,588	12,453,336	474,512,073	135,588	--	805,510,585	1,869,676	807,380,261
Net income for the year	--	--	--	214,778,883	--	--	214,778,883	(224,633)	214,554,250
Transfer to statutory reserve	--	21,477,889	--	(21,477,889)	--	--	--	--	--
Cash dividends	--	(93,409,588)	(12,453,336)	(67,500,000)	--	--	(67,500,000)	--	(67,500,000)
Issuance of Bonus shares	225,000,000	--	--	(119,137,076)	--	--	--	--	--
Unrealized loss on investment in available for sale securities	--	--	--	--	(184,600)	--	(184,600)	--	(184,600)
<b>Balance at 31 December 2014</b>	<b>450,000,000</b>	<b>21,477,889</b>	<b>--</b>	<b>481,175,991</b>	<b>(49,012)</b>	<b>--</b>	<b>952,604,868</b>	<b>1,645,043</b>	<b>954,249,911</b>

The accompanying notes (1) to (28) form an integral part of these consolidated financial statements



**Abdullah Al-Othaim Markets Company**  
(A Saudi Joint Stock Company)  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2015  
(Saudi Riyals)

**1. ORGANIZATION AND ACTIVITIES**

Abdullah Al-Othaim Markets Company (the "Company") is a Saudi joint stock company registered in Riyadh on Rajab 7, 1400 (May 21, 1980) under Commercial Registration Number 1010031185. The Company was converted from a limited liability company into a joint stock company according to the ministerial decree No. 227/G on Ramadan 3, 1428 (corresponding to September 15, 2007).

The main activities of the Company is to deal in wholesale, retail of food supplies, electronics through their commercial outlets across the Kingdom of Saudi Arabia.

These consolidated financial statements comprise of the financial statements of the Company and its subsidiaries, together referred to as the "Group".

<u>Name of the Subsidiaries</u>	<b>Effective ownership (%) at 31 December</b>	
	<u>2015</u>	<u>2014</u>
Haley Holding Company	100%	100%
Universal Marketing Centre Company	100%	100%
Seven Services Company	100%	100%
Bayt Alwatan Company	100%	100%
Marafeq Al Tashgheel Company	100%	100%
Haley Holding Company – Turkey	100%	100%
Haley Holding Company – Bosnia and Herzegovina	100%	100%
Al-Othaim Markets Egypt	100%	100%
Thamarat Al Qassim Company	90%	90%
Riyadh Food Industries Company	55%	50%
Mueen Recruitment Company	68%	--

**Haley Holding Company**

A limited liability company operates under commercial registration number 1010314228 issued in Riyadh city on 09 Ramadan 1432 H corresponding to 09 August 2011. The activities are investment in other companies in order to have control over the operations of the acquired company, wholesale, retail trading of groceries, rice, wheat, fish, home appliances, computer services (Information System and Data Bases), import and export services, marketing of others, maintenance of training and entertaining facilities.

**Universal Marketing Centre Company**

A limited liability company operates under commercial registration number 1010314201 issued in Riyadh city on 09 Ramadan 1432 H corresponding to 09 August 2011. The activities are investment in other companies in order to have control over the operations of the acquired company, wholesale, retail trading of groceries, rice, wheat, fish, home appliances, computer services (Information System and Data Bases), import and export services, marketing of others, maintenance of training and entertaining facilities.

**Seven Services Company**

A limited liability company operates under commercial registration number 1010320848 issued in Riyadh city on 02 Muharram 1433 H corresponding to 27 November 2011.

**Abdullah Al-Othaim Markets Company**  
(A Saudi Joint Stock Company)  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2015

**1. ORGANIZATION AND ACTIVITIES (CONTINUED)**

**Seven Services Company (Continued)**

The activities are importing and exporting, whole sale and retail of ready clothes and sport clothes, jewelry and sewing tools, bags and leather products, decorations and roofs, vehicles and agriculture spare parts and importing and exporting for others, installing agriculture projects and operating bakeries and cafes.

**Bayt Al Watan Company**

A limited liability company operates under commercial registration number 1010320847 issued in Riyadh city on 02 Muharram 1433 H corresponding to 27 November 2011. The main activities of the company are importing and exporting, retail and whole sales of fruits and vegetables, fish and dairy products, olive and beverages and importing and exporting for others, and maintenance of training and entertainment facilities and sport facilities and general contracting for building (building, maintenance and demolition) and general electrical work.

**Marafeq Al Tashgheel Company**

A limited liability company operates under commercial registration number 1010321917 issued in Riyadh city on 15 Muharram 1433 H corresponding to 10 December 2011. The activities are construction of buildings, bridges and road works.

**Haley Holding Company – Bosnia and Herzegovina**

A limited liability company operates under commercial registration number 065 – Reg – 13-000344 issued in Republic of Bosnia and Herzegovina on 5 Rabi – Al - Akhir 1434 H corresponding to 15 February 2013. The activities are providing mediation & commercial services.

**Haley Holding Company – Turkey**

A Joint stock company operates under commercial registration number 846205 issued in Republic of Turkey on 1 Safar 1434H corresponding to 14 December 2012. The activities are providing mediation & commercial services.

**Al Othaim Markets Egypt**

A Joint stock company operates under commercial registration number 55010 issued in Arab Republic of Egypt on 20 Dhu Al-Hijjah 1432 H corresponding to 16 November 2011. The activities are wholesale & retail trading of consumer goods.

**Thamarat Al Qassim Company**

A limited liability company operates under commercial registration number 1010378315 issued in Riyadh city on 30 Rajab 1434 H corresponding to 9 June 2013. The activities are agriculture, poultry, import and export services and real estate.

**Riyadh Food Industries Company**

A closed joint stock company operates under commercial registration number 1010011849 issued in Riyadh city on 17 Rabi Al Akhir 1397 H corresponding to 5 April 1977. The activities are retail and wholesale of consumer products. The financial statements of the company has been consolidated for the first time in the consolidated financial statements for the year ended 31 December 2015.

**Abdullah Al-Othaim Markets Company**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2015

**1. ORGANIZATION AND ACTIVITIES (CONTINUED)**

**Mueen Recruitment Company**

A closed joint stock company operates under commercial registration number 1010435202 issued in Riyadh city on 6 Ramadan 1436 H corresponding to 23 June 2015. The activities are providing labor services for both public and private sectors based on the registration number of Ministry of Labor number HMM 24 dated 23 Dhul Hijja 1436 H corresponding to 16 October 2015. The financial statements of the company has been consolidated for the first time in the consolidated financial statements for the year ended 31 December 2015.

**2. BASIS OF PREPARATION**

**a- *Statement of compliance***

These consolidated financial statements have been presented in accordance with the requirements of accounting standard on financial reporting issued by the Saudi Organization of Certified Public Accountants (SOCPA).

**b- *Basis of measurement***

The consolidated financial statements have been prepared on the historical cost basis, except for available for sale investments and derivative financial instruments which are stated at fair value, using the accrual basis of accounting and the going concern concept.

**c- *Functional and presentation currency***

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

**d- *Use of estimates and judgments***

The consolidated financial statements prepared by the management require the use of estimates and assumptions which has an effect on the financial position and results of operation. Actual results may differ from those 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.

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

**i) *Classification of investment properties***

The management determines whether a property qualifies as an investment property. In making its judgment, the management considers the intention of use of such property whether it is held for rental or capital appreciation purposes as well as those held for undetermined future use along with the significance of value of these properties and whether the properties generates cash flows largely independently of the other assets held by the Group.

**Abdullah Al-Othaim Markets Company**  
(A Saudi Joint Stock Company)  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2015  
(Saudi Riyals)

**2. BASIS OF PREPARATION (CONTINUED)**

*ii) Impairment of accounts receivable*

A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of the agreement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators of objective evidence that the trade receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

*iii) Provision for slow moving inventory items*

The management makes a provision for slow moving and obsolete inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the year.

*iv) Useful lives of property and equipment*

The management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

*e- Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiaries as disclosed in note (1) above. Subsidiaries are entities controlled by the Group. Control exist when the Group 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 excisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commence until the date control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated.

**3. SIGNIFICANT ACCOUNTING POLICIES**

These accounting policies adopted have been applied consistently to all the years presented in the consolidated financial statements. Certain comparative amounts have been reclassified to conform with the current year presentation.

*a- Cash and Cash Equivalents*

Cash and cash equivalents comprise cash on hand, cash at banks in current accounts and other short-term highly liquid investments with original maturities of three month or less, if any, which are available to the Company without any restrictions.

**Abdullah Al-Othaim Markets Company**  
(A Saudi Joint Stock Company)  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2015  
(Saudi Riyals)

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**b- Revenue recognition**

- Revenue from sale of goods is recognized at the time of check-out sales where there is no continuing management involvement with the goods.
- Opening fees, based on agreements with the suppliers, are recognized at the time of opening of the store and are presented net of cost of sales.
- Income from rebates and other supplier's benefits are recognized on accrual basis according to the agreements with the suppliers. For the presentation purposes, cost of sales is stated net of rebates.

**c- Expenses**

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the Group's products. All other expenses are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically part of cost of revenues as required under generally accepted accounting principles. Allocations between general and administrative expenses and cost of revenues, when required, are made on consistent basis.

**d- Investments**

*Equity accounted investees*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investee) and are initially recognized at cost. The financial statements include the Group's share of income and expenses and equity movement of the equity accounted investees from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate. The Group's share of profits or losses of the investee companies is credited or charged to the consolidation statement of income and its share in post-acquisition movement in other reserves is recognized in the Group's Equity.

*Available for sale investments*

Available for sale investments principally consist of shareholding of less than 20% in quoted and unquoted equity investments including mutual funds investments, which are not held for trading purposes and where the Group does not have any significant influence or control. These are initially recognized and subsequently re-measured at fair value. Any changes in fair value are recognized in equity as fair value reserve until the investment is disposed. Any significant and prolonged decline in value of the available for sales investments, if any, is charged to the consolidated statement of income. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the consolidated balance sheet date.

**Abdullah Al-Othaim Markets Company**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***e- Inventories***

Inventories are stated at the lower of cost or market value. Cost is determined using the moving average cost method.

***f- Provisions and contingent liabilities***

Provisions are recognized for liabilities of uncertain timing or amount, when the Group has legal or constructive obligation arising as a result of a past event, it is probable, that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

***g- Property and equipment***

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the asset. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the consolidated income statement when incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of individual item of property, plant and equipment. The estimated lives of the principal classes of assets are as follows:

	<u>Years</u>
Machinery and equipment	10
Buildings	5 – 25
Vehicles	5 – 7
Computers	5 – 7
Furniture and fixtures	7
Leasehold improvements	10

***h- Investment property***

Investment properties in the form of buildings and land held by the Group to earn rentals or for capital appreciation are recognized at cost less accumulated depreciation, and impairment if any. Land is not depreciated. The estimated lives of buildings are 5 – 25 years.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***i- Impairment of non-current assets***

The Group reviews on regular basis the carrying amount of its non-current assets to determine whether there is any indication that those assets have suffered impairment in value. In case such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where it is not possible to estimate the recoverable amount of individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

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 in the consolidated statement of income immediately.

***j- Biological Assets***

Biological assets are stated at cost of purchase or at the cost of rearing or growing to the point of commercial production, less accumulated depreciation. The costs of immature biological assets are determined by the cost of rearing or growing to their respective age. Biological assets are depreciated on a straight line basis to their estimated life of 5 years.

***k- Intangible assets***

Intangible assets represent costs incurred for the purpose of using rented stores (key money). These assets are amortized over the term of the related lease contracts.

***l- Borrowing costs***

Borrowing costs directly attributable to acquisitions or constructions of qualifying assets, which are the assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to the consolidated statement of income in the period in which they are incurred.

***m- Foreign currency translation***

Items included in the financial statements of each of the group's entities are measured using the functional currency of the entity. The consolidated financial statements are presented in Saudi Arabian Riyal ("SAR") which is the group's presentation currency. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Transactions denominated in foreign currencies are translated to functional currency of the Group at the exchange rate ruling at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of income if any.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**n- *Rental Income.***

Rental income is recognized in on a straight-line basis over the term of the lease.

**o- *Employee end-of-service benefits***

Employees' end of service benefits, calculated in accordance with Saudi Arabian labor regulations, are accrued and charged to the consolidated statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled reduced by any payment made in advance, should his services be terminated at the balance sheet date.

**p- *Segmental reporting***

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

**q- *Zakat and tax***

The Company and its subsidiaries registered in Saudi Arabia are subject to the regulations of the Directorate of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. The zakat charge is computed on the zakat base. All the overseas subsidiaries are subject to the tax regulations in the registered countries. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

**4. CASH AND CASH EQUIVALENTS**

	<u>2015</u>	<u>2014</u>
Cash in hand	71,242,917	37,212,357
Cash at banks – current accounts	<u>258,183,208</u>	<u>146,277,134</u>
	<u>329,426,125</u>	<u>183,489,491</u>

**5. INVENTORIES**

	<u>2015</u>	<u>2014</u>
Inventories:		
- At warehouses	285,714,422	91,371,851
- At outlets	343,089,418	399,182,124
Less: Provision for slow moving, shrinkage and obsolete inventories	<u>(24,807,934)</u>	<u>(25,048,193)</u>
	<u>603,995,906</u>	<u>465,505,782</u>



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**6. PREPAYMENTS AND OTHER RECEIVABLES:**

	<u>2015</u>	<u>2014</u>
Prepaid Expenses (13)	84,606,601	62,437,970
Refundable deposits	67,028,075	10,012,951
Advance payments to suppliers	41,132,231	43,730,152
Stores rent receivables	7,859,492	697,795
Employees receivables	4,935,235	2,975,229
Margin on letters of credit and letters of guarantees	3,675,289	4,477,336
Insurance claims	15,600,826	5,049,408
Others	14,317,196	5,661,402
	<u>239,154,945</u>	<u>135,042,243</u>

**7. INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES**

	<u>2015</u>	<u>2014</u>
Balance at 1 January	178,831,391	185,926,204
Company's share in net profits of associated company	26,884,447	20,330,101
Additions during the year (7.2)	26,124,563	818,400
Company's share in other comprehensive income of associated company	717,505	—
Disposal (note 20)	(35,288,377)	(618,314)
Cash dividends received	(27,625,000)	(27,625,000)
Balance at 31 December	<u>169,644,529</u>	<u>178,831,391</u>

- 7.1** The investment in associated company includes 13.65% of the share capital of Abdullah Al-Othaim Real Estate Investment and Development Company. Other shares of the said associated company is owned by the Othaim Holding Company and Mr. Abdullah Saleh Al-Othaim and his family members.
- 7.2** The additions during the year includes 25% of the share capital of Al-Woustah Food Services Company amounting to SR 25 million incorporated during the year having a share capital SR 100 million.

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**8. PROPERTY AND EQUIPMENT**

	<u>Land</u>	<u>Machinery and equipment</u>	<u>Buildings</u>	<u>Vehicles</u>	<u>Computers</u>	<u>Furniture and fixtures</u>	<u>Leasehold improvements</u>	<u>Capital Work in progress</u>	<u>Total</u>
<b>Cost</b>									
1 January 2015	279,451,999	278,606,504	194,351,925	82,255,457	96,087,588	150,307,191	161,856,078	90,858,854	1,333,775,596
Effect of business combination	14,219,310	25,402,549	20,724,828	2,092,485	1,370,460	1,224,450	--	--	65,034,082
Additions	79,277,323	46,158,733	14,185,197	18,562,469	14,218,219	14,395,060	6,953,768	208,446,812	402,197,581
Transferred from CWIP	--	7,929,133	60,730,167	--	1,237,484	8,793,826	12,377,905	(91,068,515)	--
Transfer from Investment properties	--	--	2,477,828	--	--	--	--	--	2,477,828
Disposals	--	(3,645,766)	--	(4,026,860)	(3,881,633)	(3,537,344)	(978,695)	--	(16,070,298)
<b>31 December 2015</b>	<b>372,948,632</b>	<b>354,451,153</b>	<b>292,469,945</b>	<b>98,883,551</b>	<b>109,032,118</b>	<b>171,183,183</b>	<b>180,209,056</b>	<b>208,237,151</b>	<b>1,787,414,789</b>
<b>Accumulated depreciation</b>									
1 January 2015	--	139,044,425	55,060,211	51,118,439	49,298,243	92,055,908	81,665,357	--	468,242,583
Charge for the year	--	33,331,094	18,715,682	8,682,648	12,847,946	14,727,093	15,492,676	--	103,797,139
Transfer from Investment properties	--	--	680,718	--	--	--	--	--	680,718
Disposals	--	(2,547,600)	--	(2,474,515)	(3,266,244)	(3,218,901)	(760,116)	--	(12,267,376)
<b>31 December 2015</b>	<b>--</b>	<b>169,827,919</b>	<b>74,456,611</b>	<b>57,326,572</b>	<b>58,879,945</b>	<b>103,564,100</b>	<b>96,397,917</b>	<b>--</b>	<b>560,453,064</b>
<b>Net book value</b>									
31 December 2015	372,948,632	184,623,234	218,013,334	41,556,979	50,152,173	67,619,083	83,811,139	208,237,151	1,226,961,725
31 December 2014	279,451,999	139,562,079	139,291,714	31,137,018	46,789,345	58,251,283	80,190,721	90,858,854	865,533,013

- 8.1 Title deeds of certain lands amounting to SR 37 million are still under progress to be transferred to the Group and are under the name of Abdullah Al-Othaim Real Estate Investment and Development Company.
- 8.2 Land mentioned above amounting to SR 275 million (2014: SR 67.6 million) is mortgaged to some local banks as collateral against bank facilities (Note 12b). No capital commitments associated with these projects existed as at the consolidated balance sheet date.
- 8.3 During the year, the Group has started capitalizing the borrowing cost related to the construction of projects amounting to SR 3.1 million, calculated using a capitalization rate of 2.8%.

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**9. INVESTMENT PROPERTIES**

The investment properties comprises of malls that are leased to others and the movement during the year ended 31 December:

	<u>2015</u>	<u>2014</u>
<b>Cost</b>		
1 January	588,457,694	583,071,888
Additions	132,206	2,762,978
Transfer (to) / from property and equipment	<u>(2,477,828)</u>	<u>2,622,828</u>
<b>Balance at 31 December</b>	<u>586,112,072</u>	<u>588,457,694</u>
<b>Accumulated depreciation</b>		
1 January	95,549,198	71,685,135
Charge for the year	23,249,322	23,130,889
Transfer (to) / from property and equipment	<u>(680,718)</u>	<u>733,174</u>
<b>Balance at 31 December</b>	<u>118,117,802</u>	<u>95,549,198</u>
<b>Net Book value</b>	<u>467,994,270</u>	<u>492,908,496</u>

**10. BIOLOGICAL ASSETS**

The biological assets represent the live stocks owned by one of the Subsidiaries (Thamarat Al Qassim) and the movement during the year ended 31 December:

	<u>2015</u>	<u>2014</u>
<b>Cost</b>		
1 January	1,603,667	2,250,813
Additions	2,544	435,733
Disposals	<u>(237,691)</u>	<u>(1,082,879)</u>
<b>Balance at 31 December</b>	<u>1,368,520</u>	<u>1,603,667</u>
<b>Accumulated depreciation</b>		
1 January	370,401	227,739
Charge for the year	299,333	437,107
Disposals	<u>(98,114)</u>	<u>(294,445)</u>
<b>Balance at 31 December</b>	<u>571,620</u>	<u>370,401</u>
<b>Net Book value</b>	<u>796,900</u>	<u>1,233,266</u>

**11. INTANGIBLE ASSETS**

Intangible assets represent costs incurred for the purpose of using rented stores (key money) and are amortized over the term of the related lease contracts, i.e. 10 year and 15 year.

	<u>2015</u>	<u>2014</u>
<b>Cost</b>		
1 January	19,597,230	19,597,230
Additions	50,095	--
<b>Balance at 31 December</b>	<u>19,647,325</u>	<u>19,597,230</u>
<b>Accumulated amortization</b>		
1 January	6,489,768	4,691,541
Amortization for the year	<u>1,798,227</u>	<u>1,798,227</u>
<b>Balance at 31 December</b>	<u>8,287,995</u>	<u>6,489,768</u>
<b>Net Book value</b>	<u>11,359,330</u>	<u>13,107,462</u>

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**12. LOANS AND MURABAHAS**

a) Short-term murabahas:

The Company has facilities from local commercial banks in the form of short-term murabahas to finance working capital. Unutilized balance of these murabahas loans as at 31 December 2015 amounted to SR 270 million (31 December 2014: SR 252 million).

b) Long-term loans and murabahas:

	<u>2015</u>	<u>2014</u>
Current portion	192,213,333	100,000,000
Non-current portion	399,500,000	125,000,000
Total	591,713,333	225,000,000

These facilities are secured by mortgage of land title deeds owned by the Company with a book value of SR 275 million as at 31 December 2015 (31 December 2014: SR 67.6 million).

**13. RELATED PARTIES TRANSACTIONS AND BALANCES**

Related parties of the Group comprises of its shareholders, subsidiaries, equity accounted investees and other affiliated companies under common control.

During the year, the company transacted mainly with Al-Othaim Holding Company (founding shareholder), Abdullah Al-Othaim Real Estate Investment Development Company (equity accounted investee) and General Organisation for Social Insurance (Shareholder and member in Board of Directors)

The Company transacts with related parties on mutually agreed prices and terms which are approved by the management.

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>	
			<u>2015</u>	<u>2014</u>
Al-Othaim Holding Company	Founding Shareholder	Rent expense	10,000	10,000
		Rent income	728,800	735,050
Abdullah Al-Othaim Real Estate Investment Development Company	Equity Accounting Investee	Rent expense	10,644,267	11,132,377
		Rent income	37,364,525	37,318,474
Riyadh Foods Company	Subsidiary	Purchases	--	60,600,765
General Organization for Social Insurance	Board Member	Rent Expense	5,562,500	5,562,500

- Prepayment includes SR 2.99 million (2014: SR 5.92 million) received in advance from Abdullah Al-Othaim Real Estate Investment Development Company.
- General Organisation for Social Insurance has been elected in the Board of Directors of the Company dated 3 October 2015.

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**14. ACCRUED EXPENSES AND OTHER LIABILITIES**

	<u>2015</u>	<u>2014</u>
Employees accruals	47,034,007	65,805,449
Unearned revenue	49,383,213	44,151,935
Non Trade payable	37,651,912	38,236,556
Al-Othaim cards received in advance	25,137,566	29,976,972
Provision for Zakat (15)	9,798,497	8,585,233
Refundable deposits	68,359,351	11,910,338
Accrued utilities expense	15,391,343	4,822,856
Unearned rent revenue	7,600,069	7,020,575
Others	20,781,050	11,425,163
	<u>281,137,008</u>	<u>221,935,077</u>

**15. ZAKAT**

**Status of assessments**

The Company has submitted Zakat declarations to the Department of Zakat and Income tax (DZIT) for all the years up to 31 December 2014. The Company has finalized its Zakat status assessment with the DZIT on all years up to 31 December 2011 and has paid the related accrued Zakat, accordingly.

Furthermore, the subsidiaries companies have submitted their Zakat declarations to the DZIT up to 31 December 2014 within the consolidated declaration for the Company, There are no specific income tax and Zakat issues in relation to these companies.

The provision for current year is based on the net adjusted income of the consolidated financial statement of the Group as follows:

	<u>2015</u>	<u>2014</u>
Owners' equity at the beginning of the period	952,653,880	805,374,997
Net adjusted profit	236,197,893	220,067,747
Provisions	105,888,981	85,856,272
Loans	591,713,333	225,000,000
Less : Investments in companies	(186,289,979)	(196,288,468)
Non-current assets excluding investments	(1,707,112,225)	(1,372,782,237)
Zakatable base	<u>(6,948,117)</u>	<u>(232,771,689)</u>

As the Zakat base is negative, the company has calculated the Zakat based on the net adjusted income.

**Movement in provision**

The following is the movement of zakat and income tax provision for the year ended:

	<u>2015</u>	<u>2014</u>
Balance as at 1 January	8,585,233	6,398,505
Provision for the year	5,322,531	5,288,864
Paid during the year	(4,109,267)	(3,102,136)
Balance as at 31 December	<u>9,798,497</u>	<u>8,585,233</u>

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**16. STATUTORY RESERVE**

In accordance with the Regulations for Companies in Saudi Arabia and the Company's bylaws, the Company has established a statutory reserve by the appropriation of 10% of net income for the year until the reserve reaches 50% of the share capital. This reserve is not available for dividend distribution.

**17. OTHER RESERVES**

It represents the Group's share in the changes in fair value of derivative financial instruments of the associated company which are taken to other reserves in shareholders' equity.

**18. EARNINGS PER SHARE**

Earnings per share are calculated based on net income for the year, income from operations and income from other sources retroactively (which includes: Share in profits of equity accounted investees, Finance expenses and Other income, net) divided by the weighted average number of shares in issue which are amounting to 45 million shares.

**19. DIVIDENDS**

On 13 April 2015 the shareholders' General Assembly approved the distribution of cash dividends of SR 78.75 million represents SR 1.75 per share for the year ended 31 December 2014.

**20. BUSINESS COMBINATION**

On 1 October 2015, the Group increased its share in Riyadh Food Industries Company from 50% to 55% for a consideration amount of SAR 10 million. This step acquisition results in the Group consolidating Riyadh Food Industries Company financial statements as a subsidiary instead of accounting for it as an equity accounted investee.

The company is in a process of performing purchase price allocation on the acquired assets and liabilities. If new information obtained within one year of the date of acquisition about the facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that exist at the date of acquisition, then the accounting for the acquisition will be revised. Any difference between the consideration paid and the fair value of the net assets acquired will be recognized as goodwill or negative goodwill as appropriate. However, the Company has initially accounted for the transaction based on the carrying values of the assets and liabilities as of the acquisition date which are summarized below:

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**20. BUSINESS COMBINATION (CONTINUED)**

	<b>Carrying Value Recognized on Acquisition</b>
<b><u>Assets</u></b>	
Cash and bank balances	405,668
Account receivable	26,182,599
Prepaid expenses and other current assets	17,552,279
Inventories	44,150,188
Property, plants and equipment	65,034,082
	<b>153,324,816</b>
<b><u>Liabilities</u></b>	
Accounts payable	27,899,895
Notes payable	27,686,837
Accrued expenses & other liabilities	9,656,275
Accrued zakat	1,450,916
Other liabilities	12,221,268
End of service benefits	3,978,263
	<b>82,893,454</b>
<b>Net Assets</b>	<b>70,431,362</b>
Non – Controlling interest in the net losses of the subsidiary of the Riyadh Foods Industries Company	145,392
Total identifiable net assets at carrying value	<b>70,576,754</b>
Additional Capital	10,000,000
Non-controlling interest 45%	(36,259,539)
Controlling Interest – 55%	<b>44,317,215</b>
<b><u>Total acquisition cost:</u></b>	
Cash consideration paid	10,000,000
Carrying value of previously held equity interest	35,288,377
Total	<b>45,288,377</b>

**21. IMPAIRMENT OF ASSETS**

During the year, a fire incident occurred at one of the manufacturing facilities of Riyadh Foods Industries Company Limited which was an associated company. The fire resulted in damage to certain property & equipment and inventories having a carrying value of SR 20.6 million.

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**22. SELLING AND DISTRIBUTION EXPENSES**

	<u>2015</u>	<u>2014</u>
Salaries and other benefits	412,497,635	341,468,902
Rent	84,757,196	79,335,215
Depreciation and amortization	80,602,115	63,325,224
Utilities	52,568,167	45,430,474
Advertisements, media and marketing support	37,395,209	37,173,744
Packaging materials	30,512,477	24,848,069
Maintenance and repairs	18,354,042	16,977,140
Fuel, oils and supplies	10,271,787	9,346,186
Branches freight expenses	11,567,102	9,657,053
Visa commission	7,198,396	1,756,876
Insurance	5,327,222	4,266,880
Subscriptions and professional fees	4,808,857	4,968,475
Provision for doubtful debts	1,217,720	4,076,419
Others	8,044,771	6,822,630
	<u>765,122,696</u>	<u>649,453,287</u>

**23. GENERAL AND ADMINISTRATION EXPENSE**

	<u>2015</u>	<u>2014</u>
Salaries and related costs	58,924,511	48,875,747
Depreciation and amortization	7,270,265	6,252,196
Fees and subscription	4,150,259	4,547,155
Utilities	2,989,353	2,836,488
Rent	3,503,414	3,684,413
Professional fees	2,018,359	722,521
Repair and maintenance	2,012,497	1,505,428
Fuel and oil	849,244	883,178
Entertainment	488,833	388,252
Donations to approved charities	18,750	1,022,310
Others	3,565,694	1,217,408
	<u>85,791,179</u>	<u>71,935,096</u>



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**24. SEGMENTAL INFORMATIONS**

The Group's activities are focused on retail and wholesale of food stuff and carries out its operations in the Kingdom of Saudi Arabia. The Group also invest in developing of commercial malls. Some selected information was summarized for each business segment as at 31 December:

	<b>For the year ended 31 December 2015</b>	
	<b>Retail and wholesale</b>	<b>Real estate and leasing (Rent)</b>
Sales	6,035,801,745	--
Rental revenue	--	111,198,353
Gross Profit	998,471,559	62,216,356
Property and equipment, net	1,226,961,725	467,994,270
Biological Assets, net	796,900	--

	<b>For the year ended 31 December 2014</b>	
	<b>Retail and wholesale</b>	<b>Real estate and leasing (Rent)</b>
Sales	5,251,902,161	--
Rental revenue	--	95,930,206
Gross Profit	871,127,222	52,798,485
Property and equipment, net	865,533,013	492,908,496
Biological Assets	1,233,266	--

Following is the geographical segment information for the revenue of the company as at 31 December

	<u>2015</u>		<u>2014</u>	
	<b>Retail and wholesale</b>	<b>%</b>	<b>Retail and wholesale</b>	<b>%</b>
Kingdom of Saudi Arabia:				
Central Region	4,292,271,593	71%	3,783,774,548	72%
Eastern region	634,131,840	11%	562,006,645	11%
Southern region	523,070,610	9%	434,925,388	8%
Northern region	411,885,550	7%	360,428,200	7%
Western region	174,442,152	3%	110,767,380	2%
Gross sales	<u>6,035,801,745</u>		<u>5,251,902,161</u>	

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**25. OPERATING LEASES**

The Group has various operating leases for retail outlets and employees' accommodations. Rental expenses for the year ended 31 December 2015 amounted to SR 71.11 million (2014: SR 40.38million).

At 31 December 2015, the minimum payments for the non-cancellable lease are as follows:

2016	65,658,571
2017	58,271,627
2018	55,310,343
2019	51,727,463
2020	43,685,609
2021 and thereafter	241,136,839

The group has various shops rented to others under operating leases. Rental income for the year ended 31 December 2015 amounting to SR 98.26 million (2014: SR 88.96 million).

**26. CONTINGENCIES AND COMMITMENTS**

As at 31 December, the Group has the following commitments and contingent liabilities:

	<u>2015</u>	<u>2014</u>
Letters of credit	<u>35,286,228</u>	<u>28,762,027</u>
Letters of guarantee	<u>8,946,175</u>	<u>10,037,080</u>
Capital commitments on projects in progress	<u>128,980,594</u>	<u>68,712,729</u>

**27. FINANCIAL INSTRUMENT AND RISK MANAGEMENT POLICIES**

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivable, investments, prepayments and other current assets, trade payable, notes payable, loans and Murabahas, employees' end of service benefits and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

**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 Group'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.

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**27. FINANCIAL INSTRUMENT AND RISK MANAGEMENT POLICIES (CONTINUED)**

**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. Majority of the Company's operating activities are carried out in Saudi Arabia.

For the financial assets, i.e. cash at banks held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the financial position date.

**Commission rate risk** is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company's financial position and cash flows. The Company monitors the fluctuations in commission rates and believes that the effect of the commission rate risk is not material.

**Currency risk** is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi riyals and U.S. dollars. Management monitors the fluctuations in currency exchange rates and believes that the currency risk is not material.

**Liquidity risk** is the risk that the Company will encounter difficulty in raising funds to meet obligation and commitments associated with financial liabilities. The Company has a proper cash management system, where daily cash collection and redemption is strictly monitored and reconciled at the end of the day. At the time of investment, particular emphasis is focused on the selection of favorable investments to the extent of equity share. The Company manages this risk by managing maturities of financial liabilities through maintaining surplus cash and cash equivalents and managing between the credit periods of creditors.

**28. DATE OF AUTHORIZATION**

The financial statements were authorized for issue by the board of directors on 13 Jumada'I 1437H corresponding to 22 February 2016.