

**SAUDI MARKETING COMPANY (FARM SUPERSTORES)
AND ITS SUBSIDIARIES**
(A Saudi Joint Stock Company)
**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
AND INDEPENDENT AUDITOR'S REPORT**

SAUDI MARKETING COMPANY (FARM SUPERSTORES) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Saudi Marketing Company (Farm Superstores)
(A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Saudi Marketing Company (Farm Superstores), A Saudi Joint Stock Company, ("the Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, a description of how our audit addressed the matter is provided in that context.



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Saudi Marketing Company (Farm Superstores)
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Report on the Audit of the Consolidated Financial Statements (Continued)

Key audit matters (Continued)

Key audit matter

How our audit addressed the key audit matter

First time Adoption of International Financial Reporting Standards (IFRS)

As a result of the regulatory requirements in the Kingdom of Saudi Arabia, effective 1 January 2017, the Group is required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia ("KSA").

For all periods up to and including the year ended 31 December 2016, the Group prepared and published its consolidated financial statements in accordance with Accounting Standards Generally Accepted in KSA issued by SOCPA (Local GAAP). The consolidated financial statements for the year ended 31 December 2017 are the Group's first annual consolidated financial statements in accordance with IFRS as endorsed in KSA.

Accordingly, the Group has applied IFRS as endorsed in KSA for preparation of its consolidated financial statements for the year beginning 1 January 2017, as well as for presenting the relevant comparative period data. In compliance with requirements of IFRS 1 as endorsed in KSA, the Group's opening statement of consolidated financial position was prepared as at 1 January 2016 after incorporating required adjustments to reflect the transition to IFRS as endorsed in KSA from the previous Local GAAP. The Group has assessed the impact and significant adjustments are made on transitioning from Local GAAP to IFRS as endorsed in KSA in the Group's consolidated financial statements as at 1 January 2016 and 31 December 2016.

We considered this as a key audit matter since the first-time adoption of IFRS has significant impact on the consolidated financial statements from the recognition, measurement and disclosure perspective.

Notes 2 and 6 to the consolidated financial statements provide information on the Group's first time adoption of IFRS as endorsed in KSA.

Our audit procedures included, amongst others, assessing the appropriateness of the implementation of IFRS as endorsed in KSA in accordance with the provisions of IFRS 1.

We assessed the appropriateness of the accounting policies adopted, tested a sample of adjustments (including calculation and recording) made to various balances and transactions to bring them in line with IFRS as endorsed in KSA.

We also assessed the appropriateness of disclosures made in relation to the first time adoption of IFRS as endorsed in KSA.



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To the Shareholders of Saudi Marketing Company (Farm Superstores)
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Report on the Audit of the Consolidated Financial Statements (Continued)

Key audit matters (Continued)

Key audit matter

How our audit addressed the key audit matter

Revenue recognition

Revenue from sale of goods is generally recognized when the significant risks and rewards of the underlying products have passed to the customer, usually on delivering the goods.

We considered this as a key audit matter since the management of the Group focuses on sales as a key performance measure which could create an incentive for sales to be recognized before the risks and rewards have been transferred.

Note 2.4 to the consolidated financial statements provides information on revenue recognition.

Our audit procedures included, amongst others:

- assessing the appropriateness of the revenue recognition accounting policies.
- We obtained a detailed understanding and evaluated the design and implementation of controls that the Group has established in relation to revenue recognition.
- Due to the high reliance of revenue recognition on IT, we evaluated the integrity of the general IT control environment. Furthermore, we performed a monthly trend analysis of revenue to identify possible significant fluctuations that deviated from the normal levels for further investigation.
- We tested the correct timing of revenue recognition. We also assessed sales transactions taking place before and after year-end to ensure that revenue was recognized in the correct period.



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To the Shareholders of Saudi Marketing Company (Farm Superstores)
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Report on the Audit of the Consolidated Financial Statements (Continued)

Key audit matters (Continued)

Key audit matter

How our audit addressed the key audit matter

Valuation of inventory

Inventory balance as at 31 December 2017 amounted to SR 617.9 million representing 38% of the total assets of the Group.

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Further, at each reporting date, management reviews the valuation of inventories and writes down the cost of inventories that are forecasted to be sold below cost.

We considered this as a key audit matter due to the significant judgements and key assumptions used by management in determining the level of inventories written down based on net realizable value assessment.

Notes 2.8 and 15 to the consolidated financial statements provide information on inventory.

Impairment of foreign investment property

As at 31 December 2017, the Group has a foreign investment property ("Property") with a carrying amount of SR 115.9 million and the related loss from this Property amounted to SR 3 million for the year then ended.

The Group's management assess, on an annual basis, whether there is an indication that the carrying amount of the Property may be impaired. If this indication exists, management estimates the Property's recoverable amount being the higher of fair value less costs of disposal and its value in use.

We consider this as a key audit matter since the assessment of impairment requires significant judgements and key assumptions to be used by management in determining the recoverable amount of the Property and the potential impact of impairment could be material to the consolidated financial statements.

Notes 12 and 33 to the consolidated financial statements provide information on the investment property and subsequent events.

Our audit procedures on the valuation of inventory included, amongst others:

We obtained a detailed understanding and evaluated the design and implementation of controls that the Group has established in relation to inventory valuation. Moreover, we obtained and evaluated the Group policy in relation to inventory valuation.

We tested the net realizable values of selected items of inventory by considering actual sales transactions post year-end.

In determining the recoverable amount of the Property as at 31 December 2017, management has relied on the fair market value less costs of disposal. Fair market value was determined based on a recent non-cancelable offer received from a related party offering to purchase the Property at an amount equal to its existing net book value as at 31 December 2017 or its market value determined by an independent appraiser, whichever is higher.

We obtained and read a copy of the offer received by the Group from a related party indicating the value offered to purchase the Property. We also held meetings with those charged with governance and executive management of the Group to understand the likely outcome of negotiations of such offer.

We also obtained copies of the Board of Directors minutes indicating that the Board received the aforementioned offer.

We also assessed the appropriateness of related disclosures included in the consolidated financial statements of the Group.



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To the Shareholders of Saudi Marketing Company (Farm Superstores)
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Report on the Audit of the Consolidated Financial Statements (Continued)

Other information included in The Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2017 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Group's 2017 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA and the provisions of Companies Law and the Parent Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



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Report on the Audit of the Consolidated Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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Report on the Audit of the Consolidated Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Baker Tilly MKM & Co.
Certified Public Accountants



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10 Rajab 1439H
27 March 2018

SAUDI MARKETING COMPANY (FARM SUPERSTORES) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u>	<u>2016</u>
		SR	SR
			(Note 6)
Revenue	5, 7	1,647,979,583	1,676,990,055
Cost of revenue	5	(1,149,120,945)	(1,183,910,397)
Gross Profit		498,858,638	493,079,658
Selling, distribution and administration expenses	5, 8	(425,854,698)	(389,528,538)
Profit From Operations		73,003,940	103,551,120
Finance costs		(13,689,161)	(9,464,668)
Other income, net	9	1,683,665	1,708,277
Profit Before Zakat and Income Tax		60,998,444	95,794,729
Zakat and income tax	27	(1,807,971)	(4,163,025)
Profit for the year		59,190,473	91,631,704
Attributable to:			
Shareholders of the Parent Company		59,131,386	91,617,448
Non-controlling interests		59,087	14,256
		59,190,473	91,631,704
Earnings per share	10		
Earning per share from profit for the year attributable to the shareholders of the Parent Company:			
Basic (SR)		1.31	2.04
Diluted (SR)		1.31	2.04

CHAIRMAN

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

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

SAUDI MARKETING COMPANY (FARM SUPERSTORES) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u>	<u>2016</u>
		<u>SR</u>	<u>SR</u>
			(Note 6)
Profit for the year		<u>59,190,473</u>	<u>91,631,704</u>
Other comprehensive income			
<i>Other comprehensive income not to be reclassified to the consolidated statement of profit or loss in subsequent years:</i>			
Remeasurement gain/ (loss) on defined benefit plans	24	523,104	(748,536)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>59,713,577</u>	<u>90,883,168</u>
Total comprehensive income for the year attributable to:			
Shareholders of the Parent Company		59,654,490	90,868,912
Non-controlling interests		<u>59,087</u>	<u>14,256</u>
		<u>59,713,577</u>	<u>90,883,168</u>

CHAIRMAN

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CHIEF FINANCIAL OFFICER

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SAUDI MARKETING COMPANY (FARM SUPERSTORES) AND ITS SUBSIDIARIES
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	31 December 2017 SR	31 December 2016 SR (Note 6)	1 January 2016 SR (Note 6)
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	11	735,099,347	696,378,334	566,122,044
Investment properties	12	145,301,698	149,954,099	150,935,310
Intangible assets	13	3,302,809	856,664	1,170,816
Prepaid lease rental		1,091,667	1,665,778	3,075,556
Available for sale investments	14	1,257,829	1,257,829	1,257,829
TOTAL NON-CURRENT ASSETS		886,053,350	850,112,704	722,561,555
CURRENT ASSETS				
Inventories	15	617,880,299	530,491,458	485,805,645
Trade accounts receivable	16	39,557,101	38,835,724	13,962,445
Prepayments and other receivables	17	48,529,329	37,927,401	50,126,168
Investments held for trading	18	7,296,220	6,602,759	5,664,292
Cash and cash equivalents	19	19,989,342	29,753,476	16,684,229
TOTAL CURRENT ASSETS		733,252,291	643,610,818	572,242,779
TOTAL ASSETS		1,619,305,641	1,493,723,522	1,294,804,334
EQUITY AND LIABILITIES				
EQUITY				
Share capital	21(a)	450,000,000	450,000,000	350,000,000
Statutory reserve	21(b)	91,480,289	85,567,150	76,444,837
Retained earnings		107,139,077	98,397,726	116,651,127
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		648,619,366	633,964,876	543,095,964
Non-controlling interest	22	226,913	167,826	916,440
TOTAL EQUITY		648,846,279	634,132,702	544,012,404
NON-CURRENT LIABILITIES				
Term loans	23	235,662,673	155,817,949	213,075,415
Deferred revenue		-	388,119	469,868
Employees' benefits	24	51,441,525	46,458,932	38,455,727
TOTAL NON-CURRENT LIABILITIES		287,104,198	202,665,000	252,001,010
CURRENT LIABILITIES				
Accounts payable and accruals	25	360,486,330	347,231,272	314,555,410
Short-term loans	26	167,994,169	178,000,000	105,608,485
Current portion of term loans	23	144,556,502	121,333,333	66,585,317
Current portion of deferred revenue		7,281,289	6,519,015	8,154,715
Zakat and income tax payable	27	3,036,874	3,842,200	3,886,993
TOTAL CURRENT LIABILITIES		683,355,164	656,925,820	498,790,920
TOTAL LIABILITIES		970,459,362	859,590,820	750,791,930
TOTAL EQUITY AND LIABILITIES		1,619,305,641	1,493,723,522	1,294,804,334

CHAIRMAN

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

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

SAUDI MARKETING COMPANY (FARM SUPERSTORES) AND ITS SUBSIDIARIES

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Attributable to the shareholders of the Parent Company					Non- controlling interest	Total equity
	Share capital	Statutory reserve	Retained earnings	Total			
	SR	SR	SR	SR	SR	SR	SR
As at 1 January 2017 (note 6)	450,000,000	85,567,150	98,397,726	633,964,876	167,826	634,132,702	
Profit for the year	-	-	59,131,386	59,131,386	59,087	59,190,473	
Other comprehensive income for the year	-	-	523,104	523,104	-	523,104	
Total comprehensive income	-	-	59,654,490	59,654,490	59,087	59,713,577	
Transfer to statutory reserve	-	5,913,139	(5,913,139)	-	-	-	
Dividends	-	-	(45,000,000)	(45,000,000)	-	(45,000,000)	
As at 31 December 2017	450,000,000	91,480,289	107,139,077	648,619,366	226,913	648,846,279	
As at 1 January 2016 (note 6)	350,000,000	76,444,837	116,651,127	543,095,964	916,440	544,012,404	
Profit for the year	-	-	91,617,448	91,617,448	14,256	91,631,704	
Other comprehensive income for the year	-	-	(748,536)	(748,536)	-	(748,536)	
Total comprehensive income	-	-	90,868,912	90,868,912	14,256	90,883,168	
Transfer to statutory reserve	-	9,122,313	(9,122,313)	-	-	-	
Dividends	-	-	-	-	(762,870)	(762,870)	
Increase in share capital	100,000,000	-	(100,000,000)	-	-	-	
As at 31 December 2016 (note 6)	450,000,000	85,567,150	98,397,726	633,964,876	167,826	634,132,702	

CHAIRMAN

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

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

SAUDI MARKETING COMPANY (FARM SUPERSTORES) AND ITS SUBSIDIARIES

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS**FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017	2016
	SR	SR
OPERATING ACTIVITIES		(Note 6)
Profit before zakat and income tax	60,998,444	95,794,729
Adjustments for non-cash items:		
Depreciation	51,360,259	43,225,265
Amortisation	343,313	543,852
Employees' benefits	8,774,075	8,506,660
Gains on disposal of property and equipment	(266,076)	(109,858)
Finance costs	13,689,161	9,464,668
Allowance for doubtful debts	-	802,510
Investments held for trading	(693,461)	(938,467)
	134,205,715	157,289,359
Changes in working capital:		
Inventories	(87,388,841)	(44,685,813)
Trade accounts receivable	(721,377)	(7,977,190)
Prepayments and other receivables	(10,027,817)	13,833,286
Deferred revenue	374,155	(1,717,449)
Accounts payable and accruals	13,255,058	14,977,262
Cash from operating activities	49,696,893	131,719,455
Employees' benefits paid	(3,268,378)	(1,251,991)
Finance costs paid	(13,689,161)	(9,464,668)
Zakat and income tax paid	(2,613,297)	(4,207,818)
Net cash generated from operating activities	30,126,057	116,794,978
INVESTING ACTIVITIES		
Purchase of property and equipment	(85,188,913)	(173,333,665)
Addition to investment properties	(342,265)	(322,720)
Proceeds from disposal of property and equipment	368,383	278,289
Additions to intangible assets	(2,789,458)	(229,700)
Net cash used in investing activities	(87,952,253)	(173,607,796)

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

SAUDI MARKETING COMPANY (FARM SUPERSTORES) AND ITS SUBSIDIARIES

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)**FOR THE YEAR ENDED 31 DECEMBER 2017**

	<u>2017</u>	<u>2016</u>
	SR	SR
		(Note 6)
FINANCING ACTIVITIES		
Proceeds from term loans	226,000,000	74,000,000
Repayment of term loans	(122,932,107)	(76,509,450)
Movement in short term loans	(10,005,831)	72,391,515
Dividends paid	(45,000,000)	-
Net cash generated from financing activities	<u>48,062,062</u>	<u>69,882,065</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(9,764,134)	13,069,247
Cash and cash equivalents at the beginning of the year	<u>29,753,476</u>	<u>16,684,229</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>19,989,342</u></u>	<u><u>29,753,476</u></u>
<u>Non cash transactions:</u>		
Increase of share capital by transfer from retained earnings (note 21 (a))	-	100,000,000
Transfer of equipment to a related party	-	987,610
Dividend declared and not paid to non-controlling interest	<u>-</u>	<u>762,870</u>

CHAIRMAN**CHIEF EXECUTIVE OFFICER****CHIEF FINANCIAL OFFICER**

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

SAUDI MARKETING COMPANY (FARM SUPERSTORES) AND ITS SUBSIDIARIES

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1 CORPORATE INFORMATION

Saudi Marketing Company (Farm Superstores) ("the Parent Company") is a Saudi Joint Stock Company registered in Dammam, Kingdom of Saudi Arabia under commercial registration number 2050006430 dated 2 Muharram 1399 H (corresponding to 3 December 1978).

The Parent Company's registered office is P.O.box 4605, Dammam 31412, Kingdom of Saudi Arabia.

At the reporting date the Parent Company has the following subsidiaries:

Subsidiary name	Effective Ownership Percentage as at		Country of incorporation
	31 December 2017	31 December 2016	
Pure Springs Agencies & Trading Company Ltd.	90.00	90.00	Saudi Arabia
Saudi Marketing and Trading S.A.L. (Holding)	99.95	99.95	Lebanon

The Parent Company and its subsidiaries listed above (collectively referred to as the "Group") are engaged in :

- Wholesale and retail of foodstuff, household consumables, toys, textiles and stationery,
- Marketing services on behalf of third parties and managing and operating bakeries,
- Managing and operating restaurants and coffee shops and providing fast food items and cold and hot beverages
- Establishment, operation and maintenance of amusement centers.

The Company conducts its business in Saudi Arabia through 98 branches (2016: 85 branches)

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

For all years up to and including the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with accounting principles generally accepted in the Kingdom of Saudi Arabia ("SOCPA"). These consolidated financial statements for the year ended 31 December 2017 are the first consolidated financial statements in accordance with IFRS 1 "First Time Adoption of International Financial Reporting Standards" as endorsed in KSA. Refer to note 6 for information on how the Group adopted IFRS as endorsed in KSA.

2.2 Basis of preparation

The consolidated financial statements have been prepared using the accruals basis of accounting under the historical cost convention, except for investments held for trading and available-for-sale investments that have been measured at fair value and employees' terminal benefits that have been measured at the present value of the expected benefits obligation.

The consolidated financial statements are presented in Saudi Riyal (SR) which is also the functional currency of the Parent Company.

SAUDI MARKETING COMPANY (FARM SUPERSTORES) AND ITS SUBSIDIARIES

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Parent Company and its subsidiaries. Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following three elements:

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

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Inter-group investments, transactions, balances and unrealized gains or losses on transactions between Group companies are eliminated. The accounting policies of the subsidiaries are consistent with those adopted by the Group.

Non-controlling interests in the results and equity of not wholly owned subsidiaries are shown separately in the consolidated statement of profit or loss and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position, respectively.

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

2.4 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

2.4.1 Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods (commonly at the store checkout for the sales via the Group's stores). Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

2.4.2 Rental income

Rental income is recognised on straight line basis over the period of the related agreement.

2.4.3 Dividends

Revenue is recognised when the Group's right to receive the amount is established, which is generally when the shareholders of investee company approve the dividends.

2.5 Expenses

2.5.1 Cost of sales

Rebates and gondola income are recognized net of cost of sales on an accruals basis and are measured based on the contractual terms specified in the agreements signed with suppliers.

2.5.2 Selling and distribution expenses

Selling and distribution expenses comprise of all costs for selling and distributing the Group's products and include expenses for advertising, distribution and other sales related overheads. Allocation between selling and distribution and cost of sales are made on a consistent basis, when required.

SAUDI MARKETING COMPANY (FARM SUPERSTORES) AND ITS SUBSIDIARIES

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Expenses (Continued)

2.5.3 General and administrative expenses

General and administrative expenses include direct and indirect costs not specifically part of cost of sales or the selling and distribution activity of the Group. Allocation between general and administrative expenses and cost of sales, are made on a consistent basis, when required.

2.6 Zakat and income tax

The Group is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Provision for zakat for the Parent Company and its Saudi Arabian subsidiary, and foreign income tax related to the Group's ownership in its foreign subsidiary, are charged to the consolidated statement of profit or loss. Additional amounts payable, if any, at the finalization of final assessments are accounted for in the period in which these are determined.

The Group withhold taxes on transactions with non-resident parties in accordance with GAZT regulations, which is not recognized as an expense being the obligation of the counter party on whose behalf the amounts are withheld.

2.7 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and cash on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash.

2.8 Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to sell.

2.9 Investment properties

Investment properties held for the purpose of generating rental income or capital appreciation are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Investment properties under construction are measured at cost less any impairment in value. Depreciation is charged on a straight line basis over the estimated useful lives as follows:

Buildings 50 years

Land is not depreciated

The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets. Other subsequent expenditure is capitalized only when it increases future economic benefits of the related item of investment properties. All other expenditure is recognized in the consolidated statement of profit or loss as the expense is incurred.

2.10 Property and equipment

2.10.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

SAUDI MARKETING COMPANY (FARM SUPERSTORES) AND ITS SUBSIDIARIES

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Property and equipment (Continued)

2.10.1 Recognition and measurement (Continued)

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) 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 property and equipment, and are recognised net within other operating income in the consolidated statement of profit or loss.

2.10.2 Subsequent costs

The cost of replacing a part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in the consolidated statement of profit or loss as incurred.

2.10.3 Depreciation

Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted prospectively if required

The estimated useful lives are as follows:

- Buildings and leasehold improvements 10 to 20 years
- Cold storage equipment 3 to 20 years
- Vehicles and trucks 4 to 10 years
- Furniture, fixtures and office equipment 3 to 20 years

2.11 Employee benefits

2.11.1 Short-term employee benefits

Short-term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.11.2 Post-employment benefits

The Group's obligation under employee end of service benefit is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Re-measurement of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of benefit payments.

SAUDI MARKETING COMPANY (FARM SUPERSTORES) AND ITS SUBSIDIARIES

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11.2 *Post-employment benefits (Continued)*

Net interest expense and other expenses related to defined benefit plans are recognised in employees' costs under selling, distribution and administration expenses in the consolidated statement of profit or loss.

2.12 Foreign currencies

The Group's consolidated financial statements are presented in Saudi Riyals, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to consolidated statement of profit or loss reflects the amount that arises from using this method.

2.12.1 *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised as profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised as OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

2.12.2 *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Saudi Riyals at exchange rates at the reporting date. Dividends received from foreign operations are translated at the exchange rate in effect at the transaction date and related currency translation differences are recognised in a separate equity reserve through other comprehensive income.

When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to the consolidated statement of profit or loss as part of the profit or loss on disposal. On the partial disposal (without loss of control) of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest.

2.13 Segmental Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Makers which in Group's case is to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available. Segment results that are reported to the Group's Chief Operating Decision Maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

2.14.1 Group as a lessee

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

2.14.2 Group as a lessor

The gross amounts receivable under finance leases less unearned finance income are reported in the consolidated statement of financial position as a net investment in finance lease. Finance income is recognized in other income in the consolidated statement of profit or loss.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.15 Borrowing costs

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

2.16 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets are not capitalised and expenditure is recognised in the consolidated statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Intangible assets (Continued)

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss in the expense category consistent with the function of the intangible assets.

The amortization period for the Group's intangible assets with finite life is as follows:

Software costs	5 years
Franchise costs	5 - 25 years

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

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

2.17 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

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

Impairment losses are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

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(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Impairment of non-financial assets (Continued)

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss.

2.18 Provision

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.19 Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

All other liabilities are classified as non-current.

2.20 Fair value measurement

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

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

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Fair value measurement (Continued)

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

The Group's management determines the policies and procedures for both recurring fair value measurement and for nonrecurring measurement.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

2.21 Financial instruments - initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Financial instruments - initial recognition and subsequent measurement (Continued)

i) Financial assets (Continued)

Subsequent measurement

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

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in selling, distribution and administration expenses for receivables.

Financial assets held for trading

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. The Group has designated its holding in a local quoted securities portfolio as financial assets held for trading. Financial assets held for trading are carried in the consolidated statement of financial position at fair value with net changes in fair value presented in the consolidated statement of profit or loss.

AFS financial assets

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited to the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the consolidated statement of profit or loss.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortized to consolidated statement of profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of profit or loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Financial instruments - initial recognition and subsequent measurement (Continued)

i) Financial assets (Continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and, to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of its continuing involvement in it. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include accounts payables, accruals, loans and borrowings.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Financial instruments - initial recognition and subsequent measurement (Continued)

ii) Financial liabilities (Continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification, as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR calculation. The EIR amortisation is included in finance costs in the consolidated statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the consolidated statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Leases

In applying the classification of leases in IAS 17, management considers its leases either as operating lease or finance lease arrangements. In some cases, the lease transaction is not always conclusive, and management uses judgement in determining whether the lease is an operating or finance lease arrangement. For interest free finance lease arrangement, management uses best estimate in determining the interest rate prevailing in the market for the purpose of discounting.

SAUDI MARKETING COMPANY (FARM SUPERSTORES) AND ITS SUBSIDIARIES

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3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Information about the assumptions and estimation uncertainties is included in the following areas:

Useful lives of property and equipment

The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

Allowance for inventory losses

The Group recognizes an allowance for inventory losses due to factors such as obsolescence, technical faults, physical damage etc. The estimation of such losses includes the consideration of factors including but not limited to past sales trends and both existing and emerging market conditions.

Allowance for doubtful receivables

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the trade receivable is impaired.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds the recoverable amount, which is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is arrived based on available data from binding sales transactions at arm's length, for similar assets. The value in use is based on a discounted cash flow (DCF) model, whereby the future expected cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Impairment losses are recognised in consolidated statement of profit or loss . Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Defined benefit plan

The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employee turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the market yield on high quality Corporate/Government bonds. The mortality rate is based on publicly available mortality tables for the country. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases are based on expected future inflation rates for the country.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Provisions

Provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

4.1 IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

4.1 IFRS 9 Financial Instruments (Continued)

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a high level impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its consolidated statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects an increase in the loss allowance resulting in a negative impact on equity.

(a) Classification and measurement

The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The impact of the new approach has not been quantified yet.

4.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2017, the Group performed a preliminary assessment of IFRS 15. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 15. Overall, the Group expects no significant impact on its consolidated statement of financial position and equity.

4.3 Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

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FOR THE YEAR ENDED 31 DECEMBER 2017

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

4.4 IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group expects no significant impact on its consolidated statement of financial position and equity.

4.5 IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transaction Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

4.6 Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

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4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

4.6 Transfers of Investment Property — Amendments to IAS 40 (Continued)

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its financial statements.

4.7 Annual Improvements 2014-2016 Cycle (issued in December 2016)

These improvements include:

4.7.1 IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation, or
- (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

4.7.2 IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. Since the Group operates in one tax jurisdiction, applying the Interpretation may affect the required disclosures.

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5 CHANGES IN ACCOUNTING POLICIES

The Group re-assessed its accounting policy for the classification of gondola income and stores rent expenses in the consolidated statement of profit or loss. The Group had previously classified gondola income as revenue and all stores rent expenses as part of cost of sales.

a) *Classification of gondola income*

On 1 January 2017, the Group elected to change the classification of gondola income to be net of cost of sales. The Group believes that this classification provides more relevant information to the users of its consolidated financial statements and is more aligned to practices adopted by the industry.

The Group applied this change in accounting policy retrospectively. Consequently, the Group reclassified the gondola income in its consolidated statement of profit or loss for the comparative year as follows:

	Year ended 31 December 2016
	SR
Gondola income reclassified from revenues to cost of sales	252,213,644

b) *Classification of store rent expenses*

On 1 January 2017, the Group elected to change the classification of stores rent expenses to be part of selling, distribution and administration expenses. The Group believes that this classification provides more relevant information to the users of its consolidated financial statements and is more aligned to practices adopted by the industry.

The Group applied this change in accounting policy retrospectively. Consequently, the Group reclassified the expense in its consolidated statement of profit or loss for the comparative year as follows:

	Year ended 31 December 2016
	SR
Stores rent expenses reclassified from cost of sales to selling, distribution & administration expenses	60,238,958

The changes in accounting policy had no impact on Group's profit or equity.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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6 FIRST-TIME ADOPTION OF IFRS:

These consolidated financial statements, for the year ended 31 December 2017, are for the first year for which the Group prepares its consolidated financial statements in accordance with IFRS. For all years up to and including the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with Local GAAP in the Kingdom of Saudi Arabia.

Accordingly, the Group has prepared consolidated financial statements that comply with IFRS applicable as at 31 December 2017, together with the comparative year data. In preparing the financial statements, the Group's opening consolidated statement of financial position was prepared as at 1 January 2016, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its local GAAP financial statements, including the consolidated statement of financial position as at 1 January 2016 and 31 December 2016 and the consolidated statements of profit or loss and other comprehensive income and cash flows for the year ended 31 December 2016.

Exemptions applied

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

The Group has utilized the following exemptions:

- ◆ IFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries that are considered businesses under IFRS, that occurred before 1 January 2016. Use of this exemption means that the local GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position.
- ◆ The Group has not applied IAS 21 retrospectively to fair value adjustments from business combinations that occurred before the date of transition to IFRS. Such fair value adjustments are treated as assets and liabilities of the Parent Company rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are nonmonetary items expressed in the functional currency of the Parent Company and no further translation differences occur.
- ◆ The Group has applied the transitional provision in IFRIC 4 Determining whether an Arrangement Contains a Lease and has assessed all arrangements based upon the conditions in place as at the date of transition.
- ◆ The Group has applied the transitional provisions in IAS 23 Borrowing Costs and capitalises borrowing costs relating to all qualifying assets after the date of transition. Similarly, the Group has not restated for borrowing costs capitalised under local GAAP on qualifying assets prior to the date of transition to IFRS.

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6 FIRST-TIME ADOPTION OF IFRS (Continued)

Group reconciliation of equity as at 1 January 2016 (date of transition to IFRS):

		Local GAAP	Remeasurements	IFRS as at
	Note	SR	SR	1 January 2016
ASSETS				SR
NON-CURRENT ASSETS				
Property and equipment		566,122,044	-	566,122,044
Investment properties		150,935,310	-	150,935,310
Intangible assets		1,170,816	-	1,170,816
Prepaid lease rental		3,075,556	-	3,075,556
Available for sale investment	A	1,796,899	(539,070)	1,257,829
TOTAL NON-CURRENT ASSETS		723,100,625	(539,070)	722,561,555
CURRENT ASSETS				
Inventories		485,805,645	-	485,805,645
Trade accounts receivable		13,962,445	-	13,962,445
Prepayments and other receivables		50,126,168	-	50,126,168
Investments held for trading		5,664,292	-	5,664,292
Cash and cash equivalents		16,684,229	-	16,684,229
TOTAL CURRENT ASSETS		572,242,779	-	572,242,779
TOTAL ASSETS		1,295,343,404	(539,070)	1,294,804,334
EQUITY AND LIABILITIES				
EQUITY				
Share capital		350,000,000	-	350,000,000
Statutory reserve		76,444,837	-	76,444,837
Retained earnings	A, B, C	123,483,176	(6,832,049)	116,651,127
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		549,928,013	(6,832,049)	543,095,964
Non-controlling interests		916,440	-	916,440
TOTAL EQUITY		550,844,453	(6,832,049)	544,012,404
NON-CURRENT LIABILITIES				
Term loans		213,075,415	-	213,075,415
Deferred revenue		469,868	-	469,868
Employees' benefits	C	38,162,748	292,979	38,455,727
TOTAL NON-CURRENT LIABILITIES		251,708,031	292,979	252,001,010
CURRENT LIABILITIES				
Accounts payable and accruals	B	308,555,410	6,000,000	314,555,410
Short-term loans		105,608,485	-	105,608,485
Current portion of term loans		66,585,317	-	66,585,317
Current portion of deferred revenue		8,154,715	-	8,154,715
Zakat and income tax payable		3,886,993	-	3,886,993
TOTAL CURRENT LIABILITIES		492,790,920	6,000,000	498,790,920
TOTAL LIABILITIES		744,498,951	6,292,979	750,791,930
TOTAL EQUITY AND LIABILITIES		1,295,343,404	(539,070)	1,294,804,334

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6 FIRST-TIME ADOPTION OF IFRS (Continued)

Group reconciliation of equity as at 31 December 2016 :

	Note	Local GAAP SR	Remeasurements SR	IFRS as at 31 December 2016 SR
ASSETS				
NON-CURRENT ASSETS				
Property and equipment		696,378,334	-	696,378,334
Investment properties		149,954,099	-	149,954,099
Intangible assets		856,664	-	856,664
Prepaid lease rental		1,665,778	-	1,665,778
Available for sale investment	A	1,796,899	(539,070)	1,257,829
TOTAL NON-CURRENT ASSETS		850,651,774	(539,070)	850,112,704
CURRENT ASSETS				
Inventories		530,491,458	-	530,491,458
Trade accounts receivable		38,835,724	-	38,835,724
Prepayments and other receivables		37,927,401	-	37,927,401
Investments held for trading		6,602,759	-	6,602,759
Cash and cash equivalents		29,753,476	-	29,753,476
TOTAL CURRENT ASSETS		643,610,818	-	643,610,818
TOTAL ASSETS		1,494,262,592	(539,070)	1,493,723,522
EQUITY AND LIABILITIES				
EQUITY				
Share capital		450,000,000	-	450,000,000
Statutory reserve		85,567,150	-	85,567,150
Retained earnings	A, B, C	105,583,993	(7,186,267)	98,397,726
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		641,151,143	(7,186,267)	633,964,876
Non-controlling interests		167,826	-	167,826
TOTAL EQUITY		641,318,969	(7,186,267)	634,132,702
NON-CURRENT LIABILITIES				
Term loans		155,817,949	-	155,817,949
Deferred revenue		388,119	-	388,119
Employees' benefits	C	45,811,735	647,197	46,458,932
TOTAL NON-CURRENT LIABILITIES		202,017,803	647,197	202,665,000
CURRENT LIABILITIES				
Accounts payable and accruals	B	341,231,272	6,000,000	347,231,272
Short-term loans		178,000,000	-	178,000,000
Current portion of term loans		121,333,333	-	121,333,333
Current portion of deferred revenue		6,519,015	-	6,519,015
Zakat and income tax payable		3,842,200	-	3,842,200
TOTAL CURRENT LIABILITIES		650,925,820	6,000,000	656,925,820
TOTAL LIABILITIES		852,943,623	6,647,197	859,590,820
TOTAL EQUITY AND LIABILITIES		1,494,262,592	(539,070)	1,493,723,522

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6 FIRST-TIME ADOPTION OF IFRS (Continued)

Group reconciliation of total comprehensive income for the year ended 31 December 2016:

	Note	Local GAAP SR	Remeasurements SR	IFRS for the year ended 31 December 2016 SR
Revenue		1,676,990,055	-	1,676,990,055
Cost of revenue		(1,183,910,397)	-	(1,183,910,397)
Gross profit		493,079,658	-	493,079,658
Selling, distribution and administration expenses	C	(389,922,856)	394,318	(389,528,538)
Profit from operations		103,156,802	394,318	103,551,120
Finance costs		(9,464,668)	-	(9,464,668)
Other income, net		1,708,277	-	1,708,277
Profit before zakat and income tax		95,400,411	394,318	95,794,729
Zakat and income tax		(4,163,025)	-	(4,163,025)
Profit for the year		91,237,386	394,318	91,631,704
Attributable to:				
Shareholders of the Parent Company		91,223,130	394,318	91,617,448
Non-controlling interests		14,256	-	14,256
		91,237,386	394,318	91,631,704
Other comprehensive income				
<i>Other comprehensive income not to be reclassified to the consolidated statement of profit or loss in subsequent years:</i>				
Remeasurement loss on defined benefit plans		-	(748,536)	(748,536)
		91,237,386	(354,218)	90,883,168

Notes to the reconciliation of equity as at 1 January 2016 and 31 December 2016 and total comprehensive income for the year ended 31 December 2016:

A. Available for sale investments

Under local GAAP, the Group measured unquoted AFS investments at cost. Under IFRS, AFS investments whether quoted or unquoted are measured at fair value. Therefore, the Group relied on a valuation report prepared by an independent valuer to estimate the fair value of AFS investments at 1 January 2016 and 31 December 2016. The valuation of AFS investments at these dates show that the fair value of these investments is less than their carrying amount by SR 539,070. Management considered this decline as significant and prolonged and accordingly was charged against opening retained earnings as at 1 January 2016.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**FOR THE YEAR ENDED 31 DECEMBER 2017****6 FIRST-TIME ADOPTION OF IFRS (Continued)****B. Contingent liability**

Under local GAAP, the Group recognized additional provisions that may become due upon finalization of a zakat or income tax assessment in the year the assessment is finalized. Under IAS 37, the Group should recognize a provision for expected additional zakat or income tax charges arising from new assessments for previous years. Accordingly, the Group recognized a provision of SR 6 million after taking into consideration the weighted average calculation of the various scenarios and their probabilities to reach the expected outcome.

C. Defined benefit obligation

Under local GAAP, the Group recognized costs related to its employees' terminal benefits by calculating the obligation using current salary levels and assuming all contracts are terminated by the Group. Under IFRS, terminal benefits are recognized using the projected unit credit method. The required obligation under IFRS as at 1 January 2016 was less by SR 292,979 and the difference has been recognised against retained earnings. The difference of SR 394,318 as at 31 December 2016 has been recognised in the consolidated statement of profit or loss and the remeasurement differences as at 31 December 2016 of SR 748,536 has been recognised in retained earnings through OCI.

D. Statement of cash flows

The transition from local GAAP to IFRS has not had a material impact on the consolidated statement of cash flows.

7 REVENUE

	2017	2016
	SR	SR
Sales	1,619,876,043	1,647,686,674
Rental income	28,103,540	29,303,381
	<u>1,647,979,583</u>	<u>1,676,990,055</u>

8 SELLING, DISTRIBUTION AND ADMINISTRATION EXPENSES

	2017	2016
	SR	SR
Employees' costs	197,630,498	182,319,078
Rent	78,629,440	71,354,045
Depreciation & amortization	51,703,572	43,769,117
Utilities	33,909,876	29,229,216
Government Fee	7,786,195	8,852,119
Advertising expenses	7,547,695	6,760,998
Repair and maintenance	6,295,281	6,048,419
Office supplies	5,446,407	5,692,320
Packing expenses	5,400,000	5,226,510
Bank charges	3,101,836	2,900,475
Cleaning supplies	3,260,020	2,731,831
Transportation	2,589,110	2,562,368
Insurance	2,739,777	3,533,977
Professional fees	1,707,500	1,948,500
Travel	858,169	831,735
Sales commission	751,603	763,196
Gifts and donations	268,315	348,643
Other	16,229,404	14,655,991
	<u>425,854,698</u>	<u>389,528,538</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

9 OTHER INCOME, NET	2017	2016
	SR	SR
Unrealised gains from investment held for trading	693,461	938,467
Dividends	290,603	335,847
Gains on disposals of property and equipment	202,836	109,858
Gains on sales of investment held for trading	-	99,830
Gains on disposals of investment property	63,240	-
Foreign currency exchange losses, net	(42,313)	(27,294)
Other	475,838	251,569
	1,683,665	1,708,277

10 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the year. The calculation of diluted earnings per share is not applicable to the Group. Also, no separate earning per share calculation from continuing operations has been presented since there were no discontinued operations during the year.

Earnings per share for the years ended 31 December 2017 and 2016 have been computed as follows:

Earning per share from profit for the year attributable to the shareholders of the Parent Company:

	2017	2016
	SR	SR
Basic (SR)	1.31	2.04
Diluted (SR)	1.31	2.04

Weighted average number of shares outstanding:

Basic	45,000,000	45,000,000
Diluted	45,000,000	45,000,000

The Company does not have any dilutive instruments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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11 PROPERTY AND EQUIPMENT

Movement in property and equipment for the year ended 31 December 2017, was as follows:

	Freehold land	Buildings and leasehold improvements	Cold storage equipment	Vehicles and trucks	Furniture, fixtures and office equipment	Construction work in progress	Total
	SR	SR	SR	SR	SR	SR	SR
Cost:							
At the beginning of the year	134,408,893	335,434,328	84,345,057	36,021,653	215,820,376	110,075,473	916,105,780
Additions	-	232,781	3,758,290	4,475,379	6,327,569	70,394,894	85,188,913
Transfers	-	92,782,181	12,907,633	-	26,037,928	(131,727,742)	-
Disposals	-	-	-	(698,100)	(151,354)	-	(849,454)
At the end of the year	134,408,893	428,449,290	101,010,980	39,798,932	248,034,519	48,742,625	1,000,445,239
Accumulated depreciation:							
At the beginning of the year	-	83,880,458	24,659,224	26,683,336	84,504,428	-	219,727,446
Charge for the year	-	19,616,981	4,787,145	4,945,703	17,015,764	-	46,365,593
Disposals	-	-	-	(659,062)	(88,085)	-	(747,147)
At the end of the year	-	103,497,439	29,446,369	30,969,977	101,432,107	-	265,345,892
Net book value:							
At 31 December 2017	134,408,893	324,951,851	71,564,611	8,828,955	146,602,412	48,742,625	735,099,347
At 31 December 2016	134,408,893	251,553,870	59,685,833	9,338,317	131,315,948	110,075,473	696,378,334

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11 PROPERTY AND EQUIPMENT (Continued)

Movement in property and equipment for the year ended 31 December 2016, was as follow:

	Freehold land	Buildings and leasehold improvements	Cold storage equipment	Vehicles and trucks	Furniture, fixtures and office equipment	Construction work in progress	Total
	SR	SR	SR	SR	SR	SR	SR
Cost:							
At the beginning of the year	91,577,150	277,259,190	71,595,830	34,135,015	188,378,374	85,713,374	748,658,933
Additions	42,143,980	50,050	821,157	2,142,138	5,299,246	122,877,094	173,333,665
Transfers	687,763	58,266,870	13,299,078	-	22,543,257	(94,796,968)	-
Disposals	-	-	-	(255,500)	(276,819)	-	(532,319)
Transfer to investment property	-	-	-	-	-	(3,718,027)	(3,718,027)
Transfers to a related party	-	(141,782)	(1,371,008)	-	(123,682)	-	(1,636,472)
At the end of the year	134,408,893	335,434,328	84,345,057	36,021,653	215,820,376	110,075,473	916,105,780
Accumulated depreciation:							
At the beginning of the year	-	69,173,767	21,261,122	21,891,053	70,210,947	-	182,536,889
Charge for the year	-	14,764,682	3,929,687	4,941,073	14,569,135	-	38,204,577
Disposals	-	-	-	(148,790)	(216,368)	-	(365,158)
Transfers to a related party	-	(57,991)	(531,585)	-	(59,286)	-	(648,862)
At the end of the year	-	83,880,458	24,659,224	26,683,336	84,504,428	-	219,727,446

Net book value:

At 31 December 2016	134,408,893	251,553,870	59,685,833	9,338,317	131,315,948	110,075,473	696,378,334
At 1 January 2016	91,577,150	208,085,423	50,334,708	12,243,962	118,167,427	85,713,374	566,122,044

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FOR THE YEAR ENDED 31 DECEMBER 2017

11 PROPERTY AND EQUIPMENT(Continued)

- i Construction work in progress mainly represents the costs incurred for the construction of new outlets in addition to certain improvement of various outlets.
- ii Certain buildings are constructed on leasehold plots for years ranging from 5 to 20 years.
- iii Overhead and rental expenses amounted to SR 10.9 million (2016: SR 10.03 million) have been capitalized during the year related to construction work in progress.
- iv Financial charges amounted to SR 2.1 million (2016: SR 3.6 million) have been capitalized during the year related to construction work in progress.
- v Depreciation charge for the years ended 31 December 2017 & 2016 has been charged to selling, distribution and administration expenses.

12 INVESTMENT PROPERTIES

Investment properties represent the Group's investment in local buildings situated in the Kingdom of Saudia Arabia in addition to a commercial complex (Beirut Mall) in the Republic of Lebanon (note 33).

Movement in the investment property for the year ended 31 December 2017 was as follows:

	Land	Buildings	Total
	SR	SR	SR
Cost:			
At the beginning of the year	26,376,600	164,018,948	190,395,548
Additions	-	342,265	342,265
Disposal	-	(611,895)	(611,895)
At the end of the year	<u>26,376,600</u>	<u>163,749,318</u>	<u>190,125,918</u>
Accumulated depreciation:			
At the beginning of the year	-	40,441,449	40,441,449
Charge for the year	-	4,994,666	4,994,666
Disposal	-	(611,895)	(611,895)
At the end of the year	-	<u>44,824,220</u>	<u>44,824,220</u>
Net book value:			
At 31 December 2017	<u>26,376,600</u>	<u>118,925,098</u>	<u>145,301,698</u>
At 31 December 2016	<u>26,376,600</u>	<u>123,577,499</u>	<u>149,954,099</u>

Movement in the investment property for the year ended 31 December 2016 was as follows:

	Land	Buildings	Total
	SR	SR	SR
Cost:			
At the beginning of the year	26,376,600	159,980,247	186,356,847
Additions	-	322,720	322,720
Transfer from property and equipment	-	3,718,027	3,718,027
Disposal	-	(2,046)	(2,046)
At the end of the year	<u>26,376,600</u>	<u>164,018,948</u>	<u>190,395,548</u>
Accumulated depreciation:			
At the end of the year	-	35,421,537	35,421,537
Charge for the year	-	5,020,688	5,020,688
Disposal	-	(776)	(776)
	-	<u>40,441,449</u>	<u>40,441,449</u>
Net book value:			
At 31 December 2016	<u>26,376,600</u>	<u>123,577,499</u>	<u>149,954,099</u>
At 1 January 2016	<u>26,376,600</u>	<u>124,558,710</u>	<u>150,935,310</u>

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13 INTANGIBLE ASSETS

Movement in intangible assets for the year ended 31 December 2017, was as follow:

	Software cost SR	Franchise cost SR	Total SR
Cost:			
At the beginning of the year	8,409,469	1,917,287	10,326,756
Additions	2,789,458	-	2,789,458
At the end of the year	11,198,927	1,917,287	13,116,214
Accumulated amortization:			
At the beginning of the year	7,953,551	1,516,541	9,470,092
Charge for the year	293,996	49,317	343,313
At the end of the year	8,247,547	1,565,858	9,813,405
Net book value:			
At 31 December 2017	2,951,380	351,429	3,302,809
At 31 December 2016	455,918	400,746	856,664

Movement in intangible assets for the year ended 31 December 2016, was as follow:

	Software cost SR	Franchise cost SR	Total SR
Cost:			
At the beginning of the year	8,179,769	1,917,287	10,097,056
Additions	229,700	-	229,700
At the end of the year	8,409,469	1,917,287	10,326,756
Accumulated amortization:			
At the beginning of the year	7,470,735	1,455,505	8,926,240
Charge for the year	482,816	61,036	543,852
At the end of the year	7,953,551	1,516,541	9,470,092
Net book value:			
At 31 December 2016	455,918	400,746	856,664
At 1 January 2016	709,034	461,782	1,170,816

Amortisation charge for the years ended 31 December 2017 & 2016 has been charged to selling, distribution and administration expenses.

14 AVAILABLE FOR SALE INVESTMENT

This represents investment in Energy City Mumbai Investment Company which is managed by a third party. The investment is held at cost less impairment loss as there is no reliable fair value information available for this investment.

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15 INVENTORIES	31 December	31 December	1 January
	2017	2016	2016
	SR	SR	SR
Finished goods	591,820,572	515,031,703	472,101,173
Packing and consumable materials	20,269,074	14,857,426	9,818,926
Raw materials	1,565,971	1,203,280	1,498,220
Goods in transit	8,224,682	3,399,049	6,337,326
	621,880,299	534,491,458	489,755,645
Less: Allowance for write down of inventories	(4,000,000)	(4,000,000)	(3,950,000)
	617,880,299	530,491,458	485,805,645

The movement in allowance for write down of inventories was as follow:

	2017	2016
	SR	SR
At the beginning of the year	4,000,000	3,950,000
Charge for the year	-	50,000
At the end of the year	4,000,000	4,000,000

16 TRADE ACCOUNTS RECEIVABLE	31 December	31 December	1 January
	2017	2016	2016
	SR	SR	SR
Trade accounts receivable from third party	33,229,556	36,645,914	14,489,081
Trade accounts receivable from related party (note 20)	7,731,691	3,593,956	75,000
	40,961,247	40,239,870	14,564,081
Less: allowance for doubtful debts	(1,404,146)	(1,404,146)	(601,636)
	39,557,101	38,835,724	13,962,445

No single customer accounts for more than 1% of the Group's sales for the years ended 31 December 2017 and 2016. The average credit period on sales of goods is 120 days. No interest is charged on trade receivables outstanding balance. Allowances for doubtful debts are recognized against trade receivables past due based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

An aged analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired			Total
	SR	121-360 days	361-1080 days	> 1080 days	SR
	SR	SR	SR	SR	SR
31 December 2017	26,237,575	9,624,907	3,694,619	-	39,557,101
31 December 2016	23,036,874	11,811,909	2,808,520	1,178,421	38,835,724
1 January 2016	8,036,510	3,975,180	1,483,340	467,415	13,962,445

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16 TRADE ACCOUNTS RECEIVABLE (Continued)

The movement in allowance for doubtful debt was as follow:

	2017	2016
	SR	SR
At the beginning of the year	1,404,146	601,636
Charge for the year	-	802,510
At the end of the year	<u>1,404,146</u>	<u>1,404,146</u>

17 PREPAYMENT AND OTHER ACCOUNT RECEIVABLE

	31 December 2017	31 December 2016	1 January 2016
	SR	SR	SR
Advances to suppliers	9,770,502	15,831,166	21,599,024
Prepaid lease rental	24,507,743	14,582,716	19,128,309
Employees receivable	4,567,545	4,766,781	4,235,731
Other	9,683,539	2,746,738	5,163,104
	<u>48,529,329</u>	<u>37,927,401</u>	<u>50,126,168</u>

18 INVESTMENT HELD FOR TRADING

	2017	2016
	SR	SR
At the beginning of the year	6,602,759	5,664,292
Additions	-	482,544
Sold during the year	-	(482,544)
Unrealized gains/ (losses) (note 9)	693,461	938,467
	<u>7,296,220</u>	<u>6,602,759</u>

19 CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016	1 January 2016
	SR	SR	SR
Cash on hand	6,525,867	4,877,836	4,518,820
Cash at banks	13,463,475	24,875,640	12,165,409
	<u>19,989,342</u>	<u>29,753,476</u>	<u>16,684,229</u>

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20 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influenced by such parties. During the year, the Group has incurred transactions with the following related parties:

<i>Name</i>	<i>Relationship</i>	<i>Nature of transactions</i>		<i>Amount of transactions</i>		<i>Balance as at</i>		
				2017	2016	31 December 2017	31 December 2016	1 January 2016
Al Aswad Trading and Contracting Company	An affiliate							
Al Dawaa Medical Services Company	An affiliate							
Al Aswad Trading Establishment	An affiliate							
The following are the details of major related parties' transactions during the year and year end balances:								
<i>Related parties</i>	<i>Nature of transactions</i>	<i>Amount of transactions</i>		<i>Balance as at</i>				
		2017	2016	31 December 2017	31 December 2016	1 January 2016	1 January 2016	1 January 2016
Al Aswad Trading and Contracting Company	Rental and advances paid	6,963,000	9,946,315	4,594,315	3,123,315	-	-	-
Others	Gondola, rental income and sales	5,600,698	1,701,050	3,137,376	470,641	75,000	75,000	75,000
				7,731,691	3,593,956			
Al Dawaa Medical Services	Purchases	812,186	6,248,941					
	Gondola and sales revenues	2,016,786	3,539,579	772,036	3,969,086	2,197,587		
Al Aswad Trading Establishment	Purchases	3,421,887	2,991,250	374,528	277,463	692,345		
Others	Purchases	2,663,192	3,273,280	30,183	-	-		
				1,176,747	4,246,549	2,889,932		

During the year, the Group transferred assets to a related party amounting to nil (2016: SR 987,610).

Pricing policies and terms of payments of transactions with related parties are approved by the Group's management.

Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

	2017	2016
Short term benefits	SR	SR
End of service benefits	5,186,000	5,186,000
Board of Directors' remunerations	268,000	268,000
	600,000	600,000
	6,054,000	6,054,000

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21 EQUITY

a) Share Capital

Share capital is divided into 45,000,000 shares of SR 10 each. On 19 Rajab 1437H (corresponding to 26 April 2016) and based on the Extraordinary General Assembly resolution, the Parent Company has increased its share capital from SR 350 million to SR 450 million by a transfer from retained earnings by issuing two bonus shares for every seven shares to the shareholders registered in the stock exchange at 26 April 2016. Accordingly, the share capital of the Company became SR 450 million divided into 45 million shares with a par value of SR 10 each. The legal formalities in respect of share capital increase have been completed.

b) Statutory Reserve

In accordance with the by-laws of the Parent Company and Companies Regulations in KSA, the Parent Company has transferred 10% of its profit for the year attributable to its shareholders to the statutory reserve. The Parent Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital.

c) Dividend

The Board of Directors in its meeting held on 18 January 2017 proposed the distribution of dividends of SR 1 per share totaling SR 45 million for the year 2016. The General Assembly of the shareholders in their meeting dated 4 May 2017 approved this dividend distribution.

22 NON-CONTROLLING INTERESTS

Non-controlling interests in the companies of the Group are as follows:

	31 December	31 December	1 January
	2017	2016	2016
	%	%	%
Pure Springs Agencies and Trading Company Ltd.	10.00	10.00	10.00
Saudi Marketing and Trading SAL (Holding) and its subsidiary	0.05	0.05	0.05

The movement in the non-controlling interests was as follows:

	2017	2016
	SR	SR
At the beginning of the year	167,826	916,440
Share in results of subsidiaries	59,087	14,256
Dividends	-	(762,870)
At the end of the year	226,913	167,826

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23 TERM LOANS

	31 December 2017 SR	31 December 2016 SR	1 January 2016 SR
Interest bearing loans and borrowings	380,219,175	277,151,282	279,660,732
Less: current portion	(144,556,502)	(121,333,333)	(66,585,317)
Non current portion	235,662,673	155,817,949	213,075,415

Term loans have been obtained from local commercial banks and are secured by promissory notes. Term loans carry financial charges at normal commercial rates. The loan agreements include covenants which among other things, require certain financial ratios to be maintained.

The maturity profile for term loans is as follows:

	31 December 2017 SR	31 December 2016 SR	1 January 2016 SR
2016	-	-	66,585,317
2017	-	121,333,333	98,269,173
2018	144,556,502	101,067,949	74,806,242
2019	128,051,561	54,750,000	40,000,000
2020 and thereafter	107,611,112	-	-
	380,219,175	277,151,282	279,660,732

Amounts due within one year from the consolidated statement of financial position date are presented under current liabilities. All other amounts are presented under non-current liabilities.

24 EMPLOYEES' BENEFITS

The movement in employees' benefits, a defined benefits plan, during the year is as follows:

	2017 SR	2016 SR
Balance at the beginning of the year	46,458,932	38,455,727
Expense charged to profit or loss	8,774,075	8,506,660
Actuarial (gains) / losses adjustments	(523,104)	748,536
Benefits Paid	(3,268,378)	(1,251,991)
Balance at the end of the year	51,441,525	46,458,932

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24 EMPLOYEES' BENEFITS (Continued)

The expense charged to profit or loss comprise of:

	<u>2017</u>	<u>2016</u>
	SR	SR
Current service cost	7,333,888	7,134,270
Interest cost	1,440,187	1,372,390
Cost recognized in profit or loss	<u>8,774,075</u>	<u>8,506,660</u>

Principle actuarial assumptions

	<u>2017</u>	<u>2016</u>
Discount rate used	3.00%	3.10%
Salary growth rate	1.85%	1.85%
Rates of employee turnover	Heavy	Heavy

Sensitivity analysis of key actuarial assumptions are as follows:

		<u>2017</u>	<u>2016</u>
	%	SR	SR
Discount rate			
Increase	+ 0.5%	48,260,463	42,947,821
Decrease	- 0.5%	52,635,752	46,769,250
Salary growth rate			
Increase	+ 0.5%	52,693,781	46,822,600
Decrease	- 0.5%	48,188,059	42,882,180

25 ACCOUNTS PAYABLE AND ACCRUALS

	<u>31 December</u>	<u>31 December</u>	<u>1 January</u>
	2017	2016	2016
	SR	SR	SR
Accounts payable to third parties	325,863,025	311,120,937	271,211,744
Accounts payable to related parties (note 20)	1,176,747	4,246,549	2,889,932
Accrued expenses	25,881,829	22,625,280	28,771,533
Other	7,564,729	9,238,506	11,682,201
	<u>360,486,330</u>	<u>347,231,272</u>	<u>314,555,410</u>

26 SHORT TERM FACILITIES

Short term facilities have been obtained from local commercial banks and comprise of bank overdrafts and short term loans with maturities of less than one year. The short term facilities are secured by promissory notes. The short term facilities carry financial charges at normal commercial rates.

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27 ZAKAT AND INCOME TAX

Charge for the year

The zakat and income tax charge consists of:

	2017	2016
	SR	SR
Current year provision	1,618,428	2,444,831
Provision relating to previous years	189,543	1,718,194
Charge for the year	<u>1,807,971</u>	<u>4,163,025</u>

Movement in provision

The movement in the zakat and income tax provisions was as follows:

	2017	2016
	SR	SR
At the beginning of the year	3,842,200	3,886,993
Provided during the year	1,807,971	4,163,025
Payments during the year	<u>(2,613,297)</u>	<u>(4,207,818)</u>
At the end of the year	<u>3,036,874</u>	<u>3,842,200</u>

Status of assessments

For Saudi Marketing Company (Farm Superstores), the Company has filed its zakat return up to the year ended 31 December 2016 and received the required certificates. In 2017, the Company has received the zakat assessments for the years 2009 to 2012 claiming additional zakat. Subsequent to year end, the Company has settled additional zakat claim and obtained final assessments up to the year 2012. The zakat assessments for the years 2013 to 2016 are still under review by GAZT.

For Pure Springs Agencies and Trading Company Ltd., the assessments have been agreed with GAZT up to year 2008. The assessments for the years from 2009 up to 2016 have not been raised yet by GAZT.

Zakat base has been computed based on the management's understanding of the zakat regulations enforced in the Kingdom of Saudi Arabia. The zakat regulations in Saudi Arabia are subject to different interpretations. The assessments to be raised by GAZT could be different from the declarations filed by the companies in Saudi Arabia.

For Saudi Marketing and Trading SAL (Holding) and its subsidiary operating in the Republic of Lebanon ("SMT"), SMT is not subject to income tax on profits, rather it is subject to tax on capital and reserves with ceiling of LL 5 million (SR 12,400). SMT's books were reviewed by the department of income tax for the years from 2008 to 2011. The preliminary outcome of this review resulted in additional tax and penalties amounting to LL 107,304,000 (SR 266,144) which were accrued for by SMT.

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28 OPERATING LEASES ARRANGEMENTS

The Group as a lessee

The Group has various lease contracts for land properties with other parties for periods ranging from 1 to 50 years. Total rent expense for 2017 amounted to SR 72.3 million (2016: SR 67.4 million). The future annual minimum lease commitments as at 31 December are summarized as follows:

	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Within one year	96,481	79,396	71,110
After one year but not later than five years	385,920	348,280	298,233
Later than five years	1,228,285	1,135,655	956,957
	<u>1,710,686</u>	<u>1,563,331</u>	<u>1,326,300</u>

The Group as a lessor

The Group is renting certain spaces within its outlets to other parties under various operating leases for periods ranging from 1 to 5 years. Total rental income generated from these leases during the year ended 31 December 2017 amounted to SR 28.1 million (2016: SR 29.6 million).

29 COMMITMENTS AND CONTINGENCIES

The Group's bankers have issued payment guarantees, on behalf of the Group, amounting to SR 11.4 million (2016: SR 11.6 million). The Group has future capital commitments of SR 1.6 million (2016: SR 2.9 million) in respect of construction of various outlets.

The Group did not settle property taxes since the inception of Saudi Marketing and Trading SAL (Holding) and its subsidiary (subsidiary of the Group). The Group's books and records have not been reviewed by the department of Built Property Tax since inception. The ultimate outcome of any reviews that may take place cannot presently be determined.

30 SEGMENTAL INFORMATION

Management monitors the operating results as one reportable business segment for the purpose of making decisions about resource allocations and performance assessment. As such and consistent with the Group's internal reporting process, the Group has one business segment and two geographical segments.

Geographical segments

The following tables include revenue and results for the year ended 31 December 2017 and 31 December 2016. Assets and liabilities information regarding geographical segments are presented as at 31 December 2017, 31 December 2016 and 1 January 2016.

	Kingdom of Saudi Arabia SR	Republic of Lebanon SR	Total SR
Revenue			
For the year ended 31 December 2017	1,636,601,730	11,377,853	1,647,979,583
For the year ended 31 December 2016	<u>1,663,940,838</u>	<u>13,049,217</u>	<u>1,676,990,055</u>
Profit/ (loss) for the year			
For the year ended 31 December 2017	62,362,398	(3,171,925)	59,190,473
For the year ended 31 December 2016	<u>94,850,401</u>	<u>(3,218,697)</u>	<u>91,631,704</u>

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Geographical segments (Continued)	<i>Kingdom of Saudi Arabia</i>	<i>Republic of Lebanon</i>	<i>Total</i>
	SR	SR	SR
Total assets			
As at 31 December 2017	1,491,989,971	127,315,670	1,619,305,641
As at 31 December 2016	1,364,215,592	129,507,930	1,493,723,522
As at 1 January 2016	<u>1,161,409,393</u>	<u>133,394,941</u>	<u>1,294,804,334</u>
Total liabilities			
As at 31 December 2017	964,751,046	5,708,316	970,459,362
As at 31 December 2016	854,039,868	5,550,952	859,590,820
As at 1 January 2016	<u>744,021,850</u>	<u>6,770,080</u>	<u>750,791,930</u>

31 FINANCIAL INSTRUMENTS**31.1 RISK MANAGEMENT**

The Group's principal financial liabilities comprise payables and accruals, short term loans and term loans. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include cash and cash equivalents and receivables.

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, currency risk and price risk). The Group's overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby consistently seeking to minimize potential adverse effects on the Group's financial performance.

Credit Risk:

Credit risk is the risk that one party to financial instruments will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its bank balances, trade receivables, and receivables from related parties as follows:

	31 December 2017	31 December 2016	1 January 2016
	SR	SR	SR
Financial assets			
Cash and cash equivalents	19,989,342	29,753,476	16,684,229
Trade receivables	33,229,556	36,645,914	14,489,081
Receivables from related parties	7,731,691	3,593,956	75,000
	<u>60,950,589</u>	<u>69,993,346</u>	<u>31,248,310</u>

The carrying amount of financial assets represents the maximum credit exposure.

Credit risk on bank balances and trade receivables is limited as cash balances are held with banks with sound credit ratings and the receivables are shown net of allowance for impairment of trade receivables.

The Group manages credit risk with respect to receivables from customers by monitoring in accordance with defined policies and procedures. Before accepting any new credit customer, the Group has its own credit policy to assess the potential customer's credit quality and defines the credit limits for the new customer. These policies are reviewed and updated regularly. Moreover, the Group seeks to manage its credit risk by monitoring outstanding receivables on an ongoing basis. There are no customer who represents more than 5% of the total balance of trade receivables.

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31 FINANCIAL INSTRUMENTS (Continued)

31.1 RISK MANAGEMENT (Continued)

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 the inability to sell a financial asset quickly at an amount close to its fair value. Following are the contractual maturities at the end of the reporting period of financial liabilities:

		31 December 2017			
		Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
		SR	SR	SR	SR
Financial Liabilities					
Borrowings		548,213,344	312,550,671	235,662,673	-
Accounts payable and accruals		360,486,330	360,486,330	-	-
		<u>908,699,674</u>	<u>673,037,001</u>	<u>235,662,673</u>	<u>-</u>
		31 December 2016			
		Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
		SR	SR	SR	SR
Financial liabilities					
Borrowings		455,151,282	299,333,333	155,817,949	-
Accounts payable and accruals		347,231,272	347,231,272	-	-
		<u>802,382,554</u>	<u>646,564,605</u>	<u>155,817,949</u>	<u>-</u>
		1 January 2016			
		Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
		SR	SR	SR	SR
Financial liabilities					
Borrowings		385,269,217	172,193,802	213,075,415	-
Accounts payable and accruals		314,555,410	314,555,410	-	-
		<u>699,824,627</u>	<u>486,749,212</u>	<u>213,075,415</u>	<u>-</u>

Liquidity risk is managed by monitoring on a regular basis that sufficient funds and banking and other credit facilities are available to meet the Group's future commitments. The Group's terms of sales require amounts to be paid either on a cash on delivery or on a terms basis.

Market Risk:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Financial instruments affected by market risk include borrowings, available for sale and held for trading investments.

Management believes that Group's exposure to price risk is limited because the amounts of the underlying balances and transactions are marginal. The Group is exposed to interest rate risk on its borrowings.

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31 FINANCIAL INSTRUMENTS (Continued)

31.1 RISK MANAGEMENT (Continued)

Interest rate risk:

Interest rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. Term loans and short term loans amounting to SR 548 million (2016: SR 455 million) bear variable finance costs at prevailing market rate.

The Group's policy is to manage its finance costs using a mix of fixed and variable commission rate debts. The following table demonstrates the sensitivity of profit to reasonably possible changes in commission rates, with all other variables held constant. There is no direct impact on the Group's equity

	Increase/decrease in basis points of interest rates	Effect on income for the year SR
31 December 2017	+100	(5,482,133)
	-100	5,482,133
31 December 2016	+100	(4,551,513)
	-100	4,551,513

Foreign currency risk:

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyal (SR), Unites States Dollar (USD) and Lebanese Lira (LL). The Group has a subsidiary in the Republic of Lebanon, whose net assets are exposed to currency translation risk. The Group's management believe that their exposure to currency risk associated with the USD is limited as the Saudi Riyal is pegged to the USD.

31.2 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and derivatives

Financial assets of the Group include bank balances and cash, trade receivables, investment held for trading, receivable from related parties and available for sale investment. Financial liabilities of the Group include interest bearing loans and borrowings, trade payables, accrued expenses and due to related parties.

The fair values of the financial instruments are not materially different from their carrying value

Investments held for trading are measured at fair value. The balance of investments held for trading is on level one of fair value hierarchy. There has been no transfer between the levels of fair value hierarchy during the year ended 31 December 2017 (2016: the same).

32 CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued capital, statutory reserve and retained earnings attributable to the shareholders of the Parent Company. The primary objective of the Group's capital management is to maximize the shareholder value. The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

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32 CAPITAL MANAGEMENT (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus debt. The Group includes within debt, current and non-current portion of borrowings.

	31 December	31 December	1 January
	2017	2016	2016
	SR	SR	SR
Debt - borrowings	548,213,344	455,151,282	385,269,217
Equity	648,846,279	634,132,702	544,012,404
Capital and debt	1,197,059,623	1,089,283,984	929,281,621
Gearing ratio	0.46	0.42	0.41

33 SUBSEQUENT EVENTS

Subsequent to the year end, the Parent Company has received a non-cancellable offer from a related party to purchase its share of 99.95% in its subsidiary in the Republic of Lebanon, Saudi Marketing and Trading SAL (Holding) ("SMT") at its carrying amount as at 31 December 2017 of SR 115.9 million or its fair value, whichever is higher. The offer is binding and non-cancellable for a period of six months. The Board of Directors received the offer on 26 March 2018 and resolved to study it in their next meeting. The proposed transaction, upon completion of the definitive terms of the complete legal documentation, would result in loss of the Parent's Company of control on SMT and as such it will be de-consolidated from the date of such a loss of control.

34 COMPARATIVE FIGURES

In addition to the adjustment referred to in note 5, certain of the prior year amounts have been reclassified to conform with the presentation in the current year.

35 DATE OF AUTHORISATION

The consolidated financial statements of the Group for the year ended 31 December 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 27 March 2018.