

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

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
AND INDEPENDENT AUDITOR'S REPORT**

**SAUDI COMPANY FOR HARDWARE**  
**(A Saudi Joint Stock Company)**  
**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017**

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## *Independent auditor's report to the shareholders of Saudi Company for Hardware*

### **Report on the audit of the consolidated financial statements**

#### *Our opinion*

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

#### **What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholders' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing as 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Group in accordance with the code of professional conduct and ethics, 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.

#### *Our audit approach*

##### **Overview**

###### **Key Audit Matters**

- First time adoption of International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia
- Impairment of goodwill

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

### 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 opinion thereon, and we do not provide a separate opinion on these matters.

#### *First time adoption of International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia*

For all periods up to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with generally accepted accounting standards as issued by SOCPA ("previous GAAP"). The Group prepared its first annual consolidated financial statements for the year ended December 31, 2017 in accordance with IFRS, as endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by SOCPA. In preparing the consolidated financial statements, the Group's opening statement of consolidated financial position was prepared as of January 1, 2016, which is the Group's date of transition to IFRS.

We considered the transition from previous GAAP to IFRS, as endorsed in the Kingdom of Saudi Arabia, as a key audit matter due to its pervasive impact on the consolidated financial statements in terms of measurement and disclosure.

Refer to Note 2 to the accompanying consolidated financial statements for the basis of preparation under first time adoption of IFRS, Note 3 for summary of significant accounting policies and Note 4 for the transition adjustments and other details in connection with transition from previous GAAP to IFRS as endorsed in the Kingdom of Saudi Arabia.

We performed the following procedures:

- Obtained an understanding of the transition differences identified by the management between the previous GAAP and IFRS, as endorsed in the Kingdom of Saudi Arabia, and assessed their completeness and appropriateness;
- Assessed the competence of the management personnel involved in the IFRS transition process;
- Evaluated the key decisions made by the Group with respect to accounting policies, estimates and judgements in relation to the transition to IFRS, as endorsed in the Kingdom of Saudi Arabia, and assessed their appropriateness based on our understanding of the Group's business and its operations;
- Tested on a sample basis the adjustments made as part of the transition process based on the differences identified; and
- Evaluated the adequacy and appropriateness of disclosures made in the consolidated financial statements in relation to the transition to IFRS as endorsed in the Kingdom of Saudi Arabia.

## *Impairment of goodwill*

At December 31, 2017, the Group had goodwill which arose on past business combinations amounting to Saudi Riyals 22.4 million.

In accordance with IAS 36 "Impairment of assets", an entity is required to test goodwill acquired in a business combination for impairment at least annually irrespective of whether there is any indication of impairment.

Goodwill is monitored by management at the level of only one cash-generating unit ("CGU") (Medscan Terminal Company Limited). Management carried out an impairment exercise in respect of goodwill allocated to the CGU based on a discounted cash flow analysis, which utilized the most recent five-year business plan prepared by the Group's management. The results of this exercise did not result in any impairment loss to be recognized.

Impairment testing of goodwill performed by the management is significant to our audit since the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires considerable judgment on the part of management. Estimates of future cash flows are based on management's views of variables such as the growth in the logistics sector, economic conditions such as the economic growth, impact of the competition on expected revenue and gross margin development and discount rates. Therefore, we identified the impairment testing of goodwill as a key audit matter.

Refer to note 5 and note 12 to this accompanying consolidated financial statements for additional details.

We tested management's impairment assessment of goodwill by performing the following procedures:

- Assessed the methodology used by management to estimate the value-in-use by reviewing the accuracy and relevance of the input data by reference to supporting evidence, such as approved budgets and considering the reasonableness of these budgets by comparing the budgets to the historical results;
- Assessed the appropriateness of cash flow projections in calculation of the value-in-use of the business, challenging the reasonableness of key assumptions such as the future business growth, terminal growth rate and discount rate, etc., based on our knowledge of the business and industry by comparing the assumptions to historical results and comparing the current year's actual results with the prior year forecast and other relevant information. Our internal valuation experts were engaged to assist in the review of methodology of the value-in-use calculations and discount rate;
- Performed sensitivity analysis over key assumptions in the calculation of the value-in use in order to assess the potential impact of a range of possible outcomes; and
- We also reviewed the adequacy of the Group's disclosures included in Note 12 to the consolidated financial statements about those assumptions to which the outcome of the impairment test is more sensitive.

## *Other information*

Management is responsible for the other information. The other information comprises the Annual Report of the Group, but does not include the consolidated financial statements and our auditor's report thereon, which 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 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 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, as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of 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.

As part of an audit in accordance with International Standards on Auditing, as 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.

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.

PricewaterhouseCoopers



By: \_\_\_\_\_  
Bader I. Benmohareb  
License Number 471

April 1, 2018

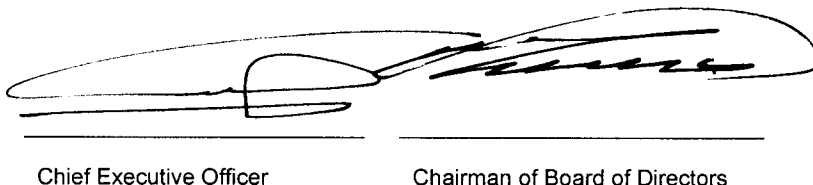
**SAUDI COMPANY FOR HARDWARE**  
(A Saudi Joint Stock Company)

**Consolidated statement of financial position**  
(All amounts in Saudi Riyals unless otherwise stated)

|   |             | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|---|-------------|----------------------|----------------------|--------------------|
| <b>Assets</b>                                     | <b>Note</b> |                      |                      |                    |
| <b>Current assets</b>                             |             |                      |                      |                    |
| Cash and bank balances                            | 6           | 27,320,630           | 54,535,375           | 24,418,192         |
| Accounts receivable, net                          | 7           | 21,050,760           | 20,382,130           | 17,464,270         |
| Inventories, net                                  | 8           | 596,692,074          | 513,283,736          | 577,810,448        |
| Prepayments and other receivables                 | 9           | 61,339,249           | 56,644,760           | 65,230,553         |
|   |             | <u>706,402,713</u>   | <u>644,846,001</u>   | <u>684,923,463</u> |
| <b>Non-current assets</b>                         |             |                      |                      |                    |
| Available for sale investment                     | 10          | 9,662,153            | 9,662,153            | 9,662,153          |
| Property and equipment                            | 11          | 244,083,692          | 193,108,126          | 146,467,876        |
| Intangible assets                                 | 12          | 43,435,487           | 43,582,119           | 23,581,646         |
|   |             | <u>297,181,332</u>   | <u>246,352,398</u>   | <u>179,711,675</u> |
| <b>Total assets</b>                               |             | <u>1,003,584,045</u> | <u>891,198,399</u>   | <u>864,635,138</u> |
| <b>Liabilities</b>                                |             |                      |                      |                    |
| <b>Current liabilities</b>                        |             |                      |                      |                    |
| Short-term borrowings                             | 13          | 34,026,405           | 10,211,807           | 120,194,796        |
| Current maturity of long-term borrowings          | 13          | 15,787,778           | 15,946,194           | 63,738,135         |
| Accounts payable                                  | 14          | 127,846,452          | 124,516,009          | 90,819,337         |
| Accrued and other liabilities                     | 15          | 93,046,635           | 103,088,062          | 88,549,921         |
| Dividends payable                                 | 16          | 94,017               | 36,062,314           | -                  |
| Accrued zakat                                     | 17          | 11,542,327           | 11,082,842           | 9,481,187          |
|   |             | <u>282,343,614</u>   | <u>300,907,228</u>   | <u>372,783,376</u> |
| <b>Non-current liabilities</b>                    |             |                      |                      |                    |
| Long-term borrowings                              | 13          | 82,875,000           | 49,662,779           | 12,858,973         |
| End of service benefits                           | 18          | 38,865,590           | 34,027,749           | 29,362,816         |
|   |             | <u>121,740,590</u>   | <u>83,690,528</u>    | <u>42,221,789</u>  |
| <b>Total liabilities</b>                          |             | <u>404,084,204</u>   | <u>384,597,756</u>   | <u>415,005,165</u> |
| <b>Shareholders' equity</b>                       |             |                      |                      |                    |
| Share capital                                     | 19          | 240,000,000          | 240,000,000          | 240,000,000        |
| Statutory reserve                                 | 20          | 57,701,439           | 44,211,519           | 31,612,067         |
| Retained earnings                                 | 4.5         | 300,396,702          | 220,987,424          | 176,616,206        |
| Fair value reserve                                | 4.2         | 1,401,700            | 1,401,700            | 1,401,700          |
| <b>Total shareholders' equity</b>                 |             | <u>599,499,841</u>   | <u>506,600,643</u>   | <u>449,629,973</u> |
| <b>Total liabilities and shareholders' equity</b> |             | <u>1,003,584,045</u> | <u>891,198,399</u>   | <u>864,635,138</u> |



Chief Financial Officer



Chief Executive Officer

Chairman of Board of Directors

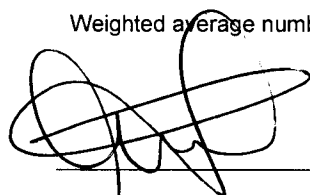
The notes on pages 10 to 41 form an integral part of these consolidated financial statements.



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

**Consolidated statement of comprehensive income**  
(All amounts in Saudi Riyals unless otherwise stated)

|  |             | <b>For the year ended December 31,</b> |                    |
|--|-------------|--|--------------------|
|  | <b>Note</b> | <b>2017</b>                            | <b>2016</b>        |
| Revenue  | 21          | 1,455,932,275                          | 1,324,090,069      |
| Cost of revenues   | 22          | (1,171,250,599)                        | (1,063,493,682)    |
| <b>Gross profit</b>  |             | <b>284,681,676</b>                     | <b>260,596,387</b> |
| <b>Operating expenses</b>                                  |             |  |                    |
| Selling and marketing expenses                             | 23          | (25,866,946)                           | (23,833,230)       |
| General and administrative expenses                        | 24          | (108,876,495)                          | (94,869,017)       |
| Income from operations                                     |             | 149,938,235                            | 141,894,140        |
| <b>Other income (expenses)</b>                             |             |  |                    |
| Financial charges  | 25          | (7,444,695)                            | (5,372,844)        |
| Other income   |             | 2,841,115                              | 2,648,816          |
| Income before zakat  |             | 145,334,655                            | 139,170,112        |
| Zakat  | 17          | (10,435,457)                           | (10,199,442)       |
| <b>Net income for the year</b>                             |             | <b>134,899,198</b>                     | <b>128,970,670</b> |
| <b>Other comprehensive income</b>                          |             | <b>-</b>                               | <b>-</b>           |
| <b>Total comprehensive income for the year</b>             |             | <b>134,899,198</b>                     | <b>128,970,670</b> |
| <b>Basic and diluted earnings per share (Saudi Riyals)</b> | 28          | <b>5.62</b>                            | <b>5.37</b>        |
| Weighted average number of shares                          |             | 24,000,000                             | 24,000,000         |



Chief Financial Officer



Chief Executive Officer

Chairman of Board of Directors

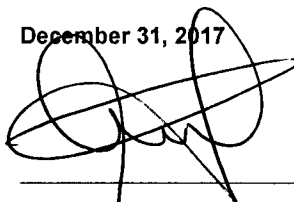
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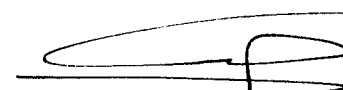
**SAUDI COMPANY FOR HARDWARE**  
(A Saudi Joint Stock Company)

**Consolidated statement of changes in shareholders' equity**  
(All amounts in Saudi Riyals unless otherwise stated)

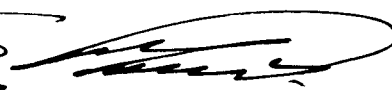
|  | Notes | Share capital      | Statutory reserve | Retained earnings  | Fair value reserve | Total              |
|--|-------|--------------------|-------------------|--------------------|--------------------|--------------------|
| <b>January 1, 2016</b>                         |       | 240,000,000        | 31,612,067        | 176,616,206        | 1,401,700          | 449,629,973        |
| <b>Comprehensive income:</b>                   |       |                    |                   |                    |                    |                    |
| Net income for the year                        | 4     | -                  | -                 | 128,970,670        | -                  | 128,970,670        |
| Other comprehensive income                     |       | -                  | -                 | -                  | -                  | -                  |
| <b>Total comprehensive income for the year</b> |       | -                  | -                 | 128,970,670        | -                  | 128,970,670        |
| Transfer to statutory reserve                  |       | -                  | 12,599,452        | (12,599,452)       | -                  | -                  |
| Dividend distribution                          | 16    | -                  | -                 | (72,000,000)       | -                  | (72,000,000)       |
| <b>December 31, 2016</b>                       |       | 240,000,000        | 44,211,519        | 220,987,424        | 1,401,700          | 506,600,643        |
| <b>Comprehensive income:</b>                   |       |                    |                   |                    |                    |                    |
| Net income for the year                        |       | -                  | -                 | 134,899,198        | -                  | 134,899,198        |
| Other comprehensive income                     |       | -                  | -                 | -                  | -                  | -                  |
| <b>Total comprehensive income for the year</b> |       | -                  | -                 | 134,899,198        | -                  | 134,899,198        |
| Transfer to statutory reserve                  |       | -                  | 13,489,920        | (13,489,920)       | -                  | -                  |
| Dividend distribution                          | 16    | -                  | -                 | (42,000,000)       | -                  | (42,000,000)       |
| <b>December 31, 2017</b>                       |       | <b>240,000,000</b> | <b>57,701,439</b> | <b>300,396,702</b> | <b>1,401,700</b>   | <b>599,499,841</b> |



Chief Financial Officer



Chief Executive Officer



Chairman of Board of Directors

The notes on pages 10 to 41 form an integral part of these consolidated financial statements.




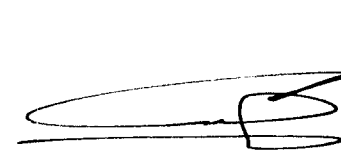
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(A Saudi Joint Stock Company)

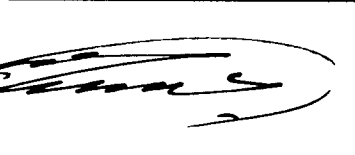
**Consolidated statement of cash flows**

(All amounts in Saudi Riyals unless otherwise stated)

|  | Notes | For the year ended<br>December 31, |               |
|--|-------|------------------------------------|---------------|
|  |       | 2017                               | 2016          |
| <b>Cash flow from operating activities</b>                       |       |                                    |               |
| Net income for the year  |       | 134,899,198                        | 128,970,670   |
| <u>Adjustments for non-cash items</u>                            |       |                                    |               |
| Depreciation and amortization                                    | 11,12 | 38,042,847                         | 30,318,820    |
| Loss from shrinkage and inventory shortages                      |       | 17,922,516                         | 15,271,510    |
| Zakat provision  | 17.3  | 10,435,457                         | 10,199,442    |
| Provision for end of service benefits                            | 18    | 7,499,808                          | 6,682,873     |
| Financial charges  |       | 7,444,695                          | 5,372,844     |
| Provision for slow moving inventory and shrinkage                | 8     | 3,227,045                          | 1,544,953     |
| Provision for doubtful debts                                     | 7     | 217,500                            | 260,280       |
| Loss on disposal of property and equipment and intangible assets |       | 93,717                             | 243,112       |
| <u>Changes in working capital</u>                                |       |                                    |               |
| Accounts receivable  |       | (886,130)                          | 1,123,332     |
| Inventories  |       | (104,557,899)                      | 47,710,249    |
| Prepayments and other receivables                                |       | (4,694,489)                        | 9,213,722     |
| Accounts payable   |       | 3,330,443                          | 33,180,507    |
| Accrued and other current liabilities                            |       | (11,464,376)                       | 13,120,109    |
| Zakat paid   | 17    | (9,975,972)                        | (8,597,787)   |
| End of service benefits paid                                     | 18    | (2,661,967)                        | (3,179,393)   |
| Financial charges paid   |       | (6,021,746)                        | (4,484,875)   |
| Net cash generated from operating activities                     |       | 82,850,647                         | 286,950,368   |
| <b>Cash flow from investing activities</b>                       |       |                                    |               |
| Purchase of property and equipment and intangible assets         | 11,12 | (90,048,890)                       | (68,515,078)  |
| Payment for acquisition of a subsidiary, net of cash acquired    |       | -                                  | (31,413,061)  |
| Proceeds from disposal of property and equipment                 |       | 1,083,392                          | 3,764         |
| Net cash utilized in investing activities                        |       | (88,965,498)                       | (99,924,375)  |
| <b>Cash flow from financing activities</b>                       |       |                                    |               |
| Changes in short-term borrowings – net                           |       | 23,814,598                         | (109,982,989) |
| Proceeds from long term borrowings                               |       | 54,000,000                         | 43,883,005    |
| Repayments of long-term borrowings                               |       | (20,946,195)                       | (54,871,140)  |
| Dividends paid   |       | (77,968,297)                       | (35,937,686)  |
| Net cash utilized in financing activities                        |       | (21,099,894)                       | (156,908,810) |
| <b>Net change in cash and cash equivalents</b>                   |       | (27,214,745)                       | 30,117,183    |
| Cash and cash equivalents at beginning of the year               |       | 54,535,375                         | 24,418,192    |
| <b>Cash and cash equivalents at end of the year</b>              | 6     | 27,320,630                         | 54,535,375    |

  
 Chief Financial Officer

  
 Chief Executive Officer

  
 Chairman of Board of Directors

The notes on pages 10 to 41 form an integral part of these consolidated financial statements.

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

**Notes to the consolidated financial statements**  
**For the year ended December 31, 2017**  
(All amounts in Saudi Riyals unless otherwise stated)

**1 General information**

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

The Capital Market Authority (the "CMA") announced on Jumada II 5, 1436H (corresponding to March 25, 2015) the CMA's board decision to approve the launch of 7,200,000 shares in the Company initial public offering which represents 30% of the total shares of the Company's 24,000,000 shares in which it was allocated to investment funds and licensed individual. The Company's shares listed in the Saudi Stock Market ("Tadawul") on Shabaan 23, 1436H (corresponding to May 12, 2015).

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

The accompanying consolidated financial statements include the accounts of the Company, its subsidiary and its stores, operating under separate commercial registrations:

| <u>Subsidiary name</u>           | <u>Country</u> | <u>Effective ownership percentage</u> | <u>Activities</u>                    |
|----------------------------------|----------------|---------------------------------------|--------------------------------------|
| Medscan Terminal Company Limited | Saudi Arabia   | 100%                                  | Transportation and logistic services |

| <u>Stores</u>              | <u>Location</u>     | <u>Commercial registration No.</u> |
|----------------------------|---------------------|------------------------------------|
| Takhassoussi               | Riyadh              | 1010056595                         |
| Hamra                      | Riyadh              | 1010154852                         |
| Badiaa                     | Riyadh              | 1010276497                         |
| Rimal                      | Riyadh              | 1010289426                         |
| Khurais                    | Riyadh              | 1010144072                         |
| Al Qasr                    | Riyadh              | 1010322479                         |
| Northern Ring Road         | Riyadh              | 1010201062                         |
| Alia Plaza                 | Riyadh              | 1010409935                         |
| Al Thaagar Plaza           | Riyadh              | 1010430261                         |
| King Abdullah Branch (New) | Riyadh              | 1010065245                         |
| Buraydah                   | Qasim               | 1131020838                         |
| Andalous                   | Jeddah              | 4030104324                         |
| Tahlia                     | Jeddah              | 4030061896                         |
| Prince Sultan Road         | Jeddah              | 4030198058                         |
| Al Sawary Mall             | Jeddah              | 4030268514                         |
| Medina Al Mounawara Branch | Medina Al Mounawara | 4650039295                         |
| Yanbu Branch               | Yanbu               | 4700012605                         |
| Dammam Branch              | Dammam              | 2050030529                         |
| Dhahran Branch             | Dhahran             | 2052000780                         |
| Jubail Branch              | Jubail              | 2055004380                         |
| Al Ahsa Branch             | Al Ahsa             | 2252026146                         |
| Jazan Branch               | Jazan               | 5900031715                         |
| Hail Branch                | Hail                | 3350043304                         |
| Onayzah Branch             | Qasim               | 1128019513                         |
| Al Kharj Branch (New)      | Al Kharj            | 1011024139                         |
| Hafr El Batten (New)       | Hafr El Batten      | 2511025181                         |
| Damman (New)               | Dammam              | 2050113956                         |
| Wouroud (Closed)           | Riyadh              | 1010065245                         |
| <b>Workshop</b>            |                     |                                    |
| Workshop Center            | Riyadh              | 1010293034                         |

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**2 Significant changes in the current reporting year**

On April 20, 2017, the Company moved to the new Headquarter Building, which is located in Riyadh City. No other major events were noted since December 31, 2016 beside the opening of four new branches in Al Kharj, Riyadh (King Abdullah), Hafr El Batten and Dammam in addition to closing one branch in Riyadh (Wouroud) (See Note 1).

At December 31, 2017, the total number of stores operated by the Company in the Kingdom of Saudi Arabia were 27 leased stores and 2 franchise stores (December 31, 2016: 24 leased stores and 2 franchise stores).

**2.1 Basis of preparation**

**i. Statement of compliance and consolidation of financial statements**

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

For all periods up to and including the year ended December 31, 2016 the Group prepared and presented the statutory financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA ("previous GAAP").

These are the Group's first consolidated financial statements prepared in accordance with IFRS and considering the provisions of IFRS 1 "First-time Adoption of International Financial Reporting Standards". In preparing these financial statements, the Group's opening statement of financial position was prepared as at January 1, 2016 the Group's date of transition to IFRS. An explanation of how the transition to IFRSs has affected the reported financial position and statement of comprehensive income is provided in Note 4.

The consolidated financial statements have been prepared under historical cost convention, as modified for the available for sale investment at fair value and by using the actuarial basis for end of service benefits, on the accrual basis of accounting.

**ii. New standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory as of December 31, 2017 and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

**IFRS 9 Financial instruments** - IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt IFRS 9 until it becomes mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2018. The Group does not expect the new guidance to have a significant impact on the measurement of its financial assets. However, there will be a change in classification of financial assets from "Available for sale" to "Fair value through other comprehensive income".

**IFRS 15 Revenue from contracts with customers** - The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. It is effective for first interim periods within annual reporting periods beginning on or after January 1, 2018. The Group will adopt the new standard from January 1, 2018. The Group's management is currently assessing the effect of applying the new standard on the Group's consolidated financial statements, however, management's initial view is that the new guidance is not expected to have a significant impact on the classification and measurement of its revenues due to the nature of the Group's business.

**IFRS 16 Leases** - IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As of the reporting date, the Group has non-cancellable operating lease commitments of Saudi Riyals 695 million. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

**iii. Principles of consolidation**

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 5).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests, if any, in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, and statement of financial position, respectively.

When the Group ceases to consolidate because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit and loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the profit and loss.

**3 Summary of significant accounting policies**

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

**3.1 Foreign currency translation**

**(a) Reporting currency**

The consolidated financial statements of the Group is presented in Saudi Riyals which is the reporting currency of the Group.

**(b) Transactions and balances**

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which were not significant for the year ended December 31, 2017 and 2016, are recognized in the profit and loss and reported under other income/expense.

**3.2 Significant accounting judgements, estimates and assumptions**

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

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**Critical estimates are disclosed below:**

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

Losses for inventory items is determined and guided by the Group's policy and other factors affecting the obsolescence of inventory items. An evaluation of inventories, designed to identify potential losses, is performed by the management on regular intervals. Management uses estimates based on the best available facts and circumstances including, but not limited to, evaluation of individual inventory items' age and obsolescence and its expected utilization and consumption in future. The amount and timing of recorded expenses for any period would therefore differ based on the estimates made.

**(b) Expected decline in the value of intangible assets**

Annually, the Group evaluate whether there is a decline in the value of the intangible assets in accordance with the accounting policies of the Group and the requirements of IFRS. The recoverable amounts are updated from cash-generating units based on the value in use. For the purpose of this calculation, the use of estimates is required.

**(c) Loyalty program for customers**

The Group offers loyalty program for the customers which offers advantages to the customers in the form of reward points that can be used during a period of one year from the date when they are earned against future purchases. The Group calculates the earned rewards balance as part of the sales process throughout which these reward points have been earned and accounts for their fair value under accrued and other current liabilities in the consolidated statement of financial position.

The fair value of the balance of reward point is determined using estimation methods that take into account the fair value of the benefits that would be received from utilizing the reward points minus the reward points balance that are expected to expire. The fair value adjustments to this provision are recorded under revenues in the consolidated statement of comprehensive income.

**(d) Impairment of goodwill**

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions.

The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates. The growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

**3.3 Segment 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 chief executive officer of the Group, being the chief operating decision-maker, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete consolidated financial statements are available.

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer of the Group (Note 29).

**3.4 Fair value measurement**

The Group measures available for sale investment at fair value at each balance sheet date.

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.

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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.

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 categorized within the fair value hierarchy which is described in Note 33.

**3.5 Revenue recognition**

Revenue is recognised for the major business activities using the methods outlined below:

**Sale of goods**

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 Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized.

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. 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. The Group provides normal warranty provisions for general repairs for two years on all its products sold, in line with industry practice. A liability for potential warranty claims is recognised at the time the product is sold.

The Group operates a loyalty points program, "My Rewards" which allows customers to accumulate points when they purchase products in the Group's retail stores. The points can then be redeemed for free products, subject to a minimum number of points being obtained. The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed. Award points expire 12 months after the initial sale.

The Group accounts for the loyalty points programme in accordance with IFRIC 13 'Customer loyalty programmes'.

**Rendering of services**

Revenue from the installation and service are recognised by reference to the stage of completion. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

**3.6 Available for sale investment**

Available for sale ("AFS") financial investments include equity securities. Equity investments classified as available-for-sale are those neither classified as held-for-trading nor designated at fair value through profit and loss.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as OCI in the fair value reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in the profit and loss, or the investment is determined to be impaired, at which time, the cumulative loss is reclassified to the profit and loss and removed from the fair value reserve.



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**3.7 Leases**

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 the profit and 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. Currently, the Group does not have any finance lease arrangements.

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

**3.8 Business combinations**

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit and loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in the profit and loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in the profit and loss.

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**3.9 Impairment of assets**

Intangible assets (including goodwill) that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**3.10 Borrowing costs**

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

**3.11 Investments and other financial assets**

*(i) Classification*

The Group classifies its financial assets in the following categories:

- loans and receivables,
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

*(ii) Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to the profit and loss as gains and losses from investment securities.

Dividends on available-for-sale equity instruments are recognised in the profit and loss when the Group's right to receive payments is established.

*(iii) Measurement*

Available-for-sale investments are carried at fair value. Gains or losses arising from changes in the fair value are recognized in other comprehensive income.

*(iv) Impairment*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

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*Assets carried at amortized cost*

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit and loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the profit and loss.

*Assets classified as available-for-sale*

If there is an objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit and loss is removed from shareholders' equity and recognised in the profit and loss.

Impairment losses on equity instruments that were recognised in the profit and loss are not reversed through the profit and loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss, the impairment loss is reversed through the profit and loss.

*(vi) Income recognition*

Dividends are recognised as income when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

**3.12 Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments, if any, with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

**3.13 Accounts receivable**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for doubtful debts 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. Such provisions are charged to the profit and loss and reported under "general and administrative expenses".

When an account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "general and administrative expenses" in the profit and loss.

**3.14 Inventories**

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

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

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**3.15 Property and equipment**

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the profit and loss.

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

**3.16 Intangible assets**

*(i) Goodwill*

Goodwill is measured on acquisitions of subsidiaries, and is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5 and 12).

*(ii) Licenses*

Separately acquired software licenses are shown at historical cost and licenses acquired in a business combination are recognized at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortization and impairment losses. Amortization is charged to the profit and loss, using straight-line method, to allocate the costs of the related assets to their residual values using estimated useful lives from 2 to 7 years.

**3.17 Accounts payable and accruals**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortized cost using the effective interest method.

**3.18 Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-zakat rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

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**3.19 Zakat**

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Provision for zakat is computed in accordance with the regulations of GAZT, and is charged to the profit and loss. Differences arising from final assessments are accounted for in the reporting period in which such assessments are finalized, with associated adjustments to zakat provision recognized in the consolidated statement of comprehensive income.

**3.20 Borrowings**

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit and loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit and loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

**3.21 Employee benefits**

**(a) Provision for end-of-service benefit**

The level of benefit provided is based on the length of service and earnings of the person entitled, and computed in accordance with the rules stated under the Saudi Arabian Labor and Workmen Law.

The liability for end of service benefits, being a defined benefit plan, is determined using the projected unit credit method with actuarial valuations being conducted at end of annual reporting periods. The related liability recognized in the consolidated statement of financial position is the present value of the end of service benefits obligation at the end of the reporting period. The liability for end of service benefits is classified under non-current liability based on the expected date of settlement.

The discount rate applied in arriving at the present value of the end of service benefits obligation represents the yield on government bonds, by applying a single discount rate that approximately reflects the estimated timing and amount of benefit payments.

End of service benefits costs are categorized as follows:

- (i) current service cost (increase in the present value of end of service benefits obligation resulting from employee service in the current period),
- (ii) interest expense (calculated by applying the discount rate at the beginning of the period to the end of service benefits liability); and
- (iii) remeasurement.

Current service cost and the interest expense arising on the end of service benefits liability are included in the same line items in the profit and loss as the related compensation cost.

Remeasurement, comprising actuarial gains and losses, is recognized in full in the period in which they occur, in other comprehensive income without recycling to the profit and loss in subsequent periods. Amounts recognized in other comprehensive income are recognized immediately in retained earnings.

**(b) Short-term employee benefits**

Short-term employee benefits are employee benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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A liability is recognized for the amount expected to be paid under short-term cash bonus 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.

**3.22 Earnings per share**

The Group presents basic, and diluted (if any), earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing net income for the year of the Group by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held (if any). Diluted EPS, if any, is determined by adjusting the net income for the year and the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

**3.23 Cost and expenses**

**3.23.1 Cost of revenues**

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

**3.23.2 Selling and marketing expenses**

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

**3.23.3 General and administrative expenses**

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

**3.24 Dividends**

Dividends are recorded in the consolidated financial statements in the period in which they are approved.

**4 First-time adoption of IFRS**

These consolidated financial statements for the year ended December 31, 2017 are the first consolidated financial statements the Group has prepared in compliance with International Financial Reporting Standards ("IFRS") and other standards and pronouncements as issued by SOCPA in the Kingdom of Saudi Arabia under the guidelines provided in IFRS 1 "First time adoption of International Financial Reporting Standards". For periods up to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with the previous GAAP.

Accordingly, the Group has prepared consolidated financial statements that comply with IFRS as endorsed by SOCPA as at and for the year ended December 31, 2017, together with the comparative statement of financial position as of December 31, 2016 and statement of comprehensive income for the year ended December 31, 2016. In preparing the consolidated financial statements, the Group's opening statement of financial position was prepared as at January 1, 2016 which is the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its previous GAAP financial statements.

IFRS 1 allows first-time adopters certain optional exemptions from the retrospective application of certain requirements under IFRS. The Group has not applied any of those optional exemptions.

**Estimates**

The estimates at January 1, 2016 and at December 31, 2016 are consistent with those made for the same dates in accordance with Saudi GAAP after adjustments to reflect any differences in accounting policies.

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**Group reconciliation of shareholders' equity as of January 1, 2016 (date of transition to IFRS)**

|   | Note | Saudi GAAP as<br>at January 1,<br>2016 | GAAP<br>adjustments | IFRS as at<br>January 1, 2016 |
|---|------|--|---------------------|-------------------------------|
| <b>Current assets</b>                             |      |  |                     |                               |
| Cash and bank balances                            |      | 24,418,192                             | -                   | 24,418,192                    |
| Accounts receivable                               |      | 17,464,270                             | -                   | 17,464,270                    |
| Inventories, net                                  |      | 577,810,448                            | -                   | 577,810,448                   |
| Prepayments and other receivables                 |      | 65,230,553                             | -                   | 65,230,553                    |
|   |      | <u>684,923,463</u>                     | -                   | <u>684,923,463</u>            |
| <b>Non-current assets</b>                         |      |  |                     |                               |
| Available for sale investment                     | 4.2  | 8,260,453                              | 1,401,700           | 9,662,153                     |
| Property and equipment                            |      | 170,049,522                            | (23,581,646)        | 146,467,876                   |
| Intangible assets                                 |      | -                                      | 23,581,646          | 23,581,646                    |
| Pre-operating expenses                            | 4.3  | 6,995,797                              | (6,995,797)         | -                             |
|   |      | <u>185,305,772</u>                     | <u>(5,594,097)</u>  | <u>179,711,675</u>            |
| <b>Total assets</b>                               |      | <u>870,229,235</u>                     | <u>(5,594,097)</u>  | <u>864,635,138</u>            |
| <b>Liabilities</b>                                |      |  |                     |                               |
| <b>Current liabilities</b>                        |      |  |                     |                               |
| Short-term borrowings                             |      | 120,194,796                            | -                   | 120,194,796                   |
| Current maturity of long-term borrowings          |      | 63,738,135                             | -                   | 63,738,135                    |
| Accounts payable                                  |      | 90,819,337                             | -                   | 90,819,337                    |
| Accrued and other liabilities                     |      | 88,549,921                             | -                   | 88,549,921                    |
| Accrued zakat                                     |      | 9,481,187                              | -                   | 9,481,187                     |
|   |      | <u>372,783,376</u>                     | -                   | <u>372,783,376</u>            |
| <b>Non-current liabilities</b>                    |      |  |                     |                               |
| Long-term borrowings                              |      | 12,858,973                             | -                   | 12,858,973                    |
| End of service benefits                           | 4.1  | 28,153,468                             | 1,209,348           | 29,362,816                    |
|   |      | <u>41,012,441</u>                      | <u>1,209,348</u>    | <u>42,221,789</u>             |
| <b>Total liabilities</b>                          |      | <u>413,795,817</u>                     | <u>1,209,348</u>    | <u>415,005,165</u>            |
| <b>Shareholders' equity</b>                       |      |  |                     |                               |
| Share capital                                     |      | 240,000,000                            | -                   | 240,000,000                   |
| Statutory reserve                                 |      | 31,612,067                             | -                   | 31,612,067                    |
| Retained earnings                                 | 4.5  | 184,821,351                            | (8,205,145)         | 176,616,206                   |
| Fair value reserve                                | 4.2  | -                                      | 1,401,700           | 1,401,700                     |
| <b>Total shareholders' equity</b>                 |      | <u>456,433,418</u>                     | <u>(6,803,445)</u>  | <u>449,629,973</u>            |
| <b>Total liabilities and shareholders' equity</b> |      | <u>870,229,235</u>                     | <u>(5,594,097)</u>  | <u>864,635,138</u>            |

\* Certain reclassifications were made on Saudi GAAP balance sheet as of January 1, 2016 to conform to the current presentation under IFRS (Mainly reclassification between property and equipment and intangible assets).

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**Group reconciliation of shareholders' equity as of December 31, 2016**

|   | Note | Saudi GAAP as<br>at December 31,<br>2016 | GAAP<br>adjustments * | Effect of IFRS 3<br>(Business<br>Combination) | IFRS as at<br>December 31,<br>2016 |
|---|------|--|-----------------------|---|------------------------------------|
| <b>Current assets</b>                                 |      |  |                       |   |                                    |
| Cash and bank balances                                |      | 54,535,375                               | -                     | -   | 54,535,375                         |
| Accounts receivable                                   |      | 20,382,130                               | -                     | -   | 20,382,130                         |
| Inventories, net                                      |      | 513,283,736                              | -                     | -   | 513,283,736                        |
| Prepayments and other<br>receivables                  |      | 56,644,760                               | -                     | -   | 56,644,760                         |
|   |      | 644,846,001                              | -                     | -   | 644,846,001                        |
| <b>Non-current assets</b>                             |      |  |                       |   |                                    |
| Available for sale<br>investment                      | 4.2  | 8,260,453                                | 1,401,700             | -   | 9,662,153                          |
| Property and equipment                                |      | 211,288,881                              | (21,204,230)          | 3,023,475                                     | 193,108,126                        |
| Intangible assets                                     |      | 25,401,364                               | 21,204,230            | (3,023,475)                                   | 43,582,119                         |
| Pre-operating expenses                                | 4.3  | 4,003,973                                | (4,003,973)           | -   | -                                  |
|   |      | 248,954,671                              | (2,602,273)           | -   | 246,352,398                        |
| <b>Total assets</b>                                   |      | 893,800,672                              | (2,602,273)           | -   | 891,198,399                        |
| <b>Liabilities</b>                                    |      |  |                       |   |                                    |
| <b>Current liabilities</b>                            |      |  |                       |   |                                    |
| Short-term borrowings                                 |      | 10,211,807                               | -                     | -   | 10,211,807                         |
| Current maturity of long-<br>term borrowings          |      | 15,946,194                               | -                     | -   | 15,946,194                         |
| Accounts payable                                      |      | 124,516,009                              | -                     | -   | 124,516,009                        |
| Accrued and other liabilities                         |      | 103,088,062                              | -                     | -   | 103,088,062                        |
| Accrued dividends                                     |      | 36,062,314                               | -                     | -   | 36,062,314                         |
| Accrued zakat   |      | 11,082,842                               | -                     | -   | 11,082,842                         |
|   |      | 300,907,228                              | -                     | -   | 300,907,228                        |
| <b>Non-current liabilities</b>                        |      |  |                       |   |                                    |
| Long-term borrowings                                  |      | 49,662,779                               | -                     | -   | 49,662,779                         |
| End of service benefits                               | 4.1  | 32,621,750                               | 1,405,999             | -   | 34,027,749                         |
|   |      | 82,284,529                               | 1,405,999             | -   | 83,690,528                         |
| <b>Total liabilities</b>                              |      | 383,191,757                              | 1,405,999             | -   | 384,597,756                        |
| <b>Shareholders' equity</b>                           |      |  |                       |   |                                    |
| Share capital   |      | 240,000,000                              | -                     | -   | 240,000,000                        |
| Statutory reserve                                     |      | 44,211,519                               | -                     | -   | 44,211,519                         |
| Retained earnings                                     | 4.5  | 226,397,396                              | (5,409,972)           | -   | 220,987,424                        |
| Fair value reserve                                    | 4.2  | -  | 1,401,700             | -   | 1,401,700                          |
| <b>Total shareholders'<br/>equity</b>                 |      | 510,608,915                              | (4,008,272)           | -   | 506,600,643                        |
| <b>Total liabilities and<br/>shareholders' equity</b> |      | 893,800,672                              | (2,602,273)           | -   | 891,198,399                        |

\* Certain reclassifications were made on Saudi GAAP balance sheet as of December 31, 2016 to conform to the current presentation under IFRS (Mainly reclassification between property and equipment and intangible assets).



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**Group reconciliation of total consolidated statement of comprehensive income for the year ended December 31, 2016**

|                                     | Note | Saudi GAAP for<br>the year ended<br>December 31,<br>2016 | GAAP<br>adjustments | IFRS for the year<br>ended<br>December 31,<br>2016 |
|-------------------------------------|------|--|---------------------|--|
| Revenues                            |      | 1,324,090,069  | -                   | 1,324,090,069                                      |
| Cost of revenues                    | 4.4  | (1,066,267,691)  | 2,774,009           | (1,063,493,682)                                    |
| <b>Gross profit</b>                 |      | <b>257,822,378</b>                                       | <b>2,774,009</b>    | <b>260,596,387</b>                                 |
| <b>Operating expenses</b>           |      |  |                     |  |
| Selling and marketing expenses      |      | (23,833,230)   | -                   | (23,833,230)                                       |
| General and administrative expenses |      | (94,890,182)   | 21,165              | (94,869,017)                                       |
| Income from operations              |      | 139,098,966  | 2,795,174           | 141,894,140  |
| <b>Other income</b>                 |      |  |                     |  |
| Financial charges                   |      | (5,372,844)  | -                   | (5,372,844)  |
| Other income                        |      | 2,648,816  | -                   | 2,648,816  |
| Profit before zakat                 |      | 136,374,938  | 2,795,174           | 139,170,112  |
| Zakat                               |      | (10,199,442)   | -                   | (10,199,442)                                       |
| <b>Net income for the year</b>      |      | <b>126,175,496</b>                                       | <b>2,795,174</b>    | <b>128,970,670</b>                                 |

**Notes to the reconciliation of shareholders' equity as of January 1, 2016 and December 31, 2016, and total comprehensive income for the year ended December 31, 2016**

**4.1 Defined benefit obligation**

Under Saudi GAAP, the Group recognised costs related to its end of service benefit plan based on the relevant labour laws. Under IFRS, end of service benefit liabilities are recognised on an actuarial basis. The end of service benefit liability has been recognised in full against retained earnings.

**4.2 Available-for-sale financial assets**

Under Saudi GAAP, the Group accounted for its investment in unquoted equity shares as financial instruments measured at cost being the fair value in the absence of reliable market value. Under IFRS, the Group has designated such investment as AFS financial assets. IFRS requires AFS financial assets to be measured at fair value. At the date of transition to IFRS, the fair value of these assets was Saudi Riyals 9.6 million and their previous Saudi GAAP carrying amount was Saudi Riyals 8.2 million. The Saudi Riyals 1.4 million difference between the instrument fair value and Saudi GAAP carrying amount was recognised as a separate component of shareholders' equity, in the fair value reserve.

**4.3 Pre-operating expenses**

Under Saudi GAAP, the Group capitalised the cost of incorporation of new branches and used to amortize it on a straight-line basis over five years. Under IFRS, such cost does not qualify for recognition as an asset and therefore has been derecognised against retained earnings.

**4.4 Cost of revenues**

|   | Note | For the year ended<br>December 31, 2016 |
|---|------|---|
| Total cost of revenues as per Saudi GAAP  |      | 1,066,267,691                           |
| <b>GAAP adjustments:</b>                  |      |   |
| End of service benefits                   | 4.1  | 217,820                                 |
| Pre-operating expense                     | 4.3  | (2,991,829)                             |
| <b>Total cost of revenues as per IFRS</b> |      | <b>1,063,493,682</b>                    |

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**4.5 Retained earnings**

|                            |      | For the year<br>ended<br>December 31,<br>2016 | For the year<br>ended January 1,<br>2016 |
|----------------------------|------|---|--|
|                            | Note |   |  |
| Balance as per Saudi GAAP  |      | 226,397,396                                   | 184,821,351                              |
| <b>GAAP adjustments:</b>   |      |   |  |
| End of service benefits    | 4.1  | (1,405,999)                                   | (1,209,348)                              |
| Pre-operating expense      | 4.3  | (4,003,973)                                   | (6,995,797)                              |
| <b>Balance as per IFRS</b> |      | <b>220,987,424</b>                            | <b>176,616,206</b>                       |

**5 Business combination**

On 23 Safar 1438H (corresponding to November 23, 2016), the Company signed an agreement ("Agreement") to purchase the entire partners' shares in Medscan Terminal Company Ltd. ("Medscan"), which represented all the assets and liabilities of Medscan as well as transferring the brand name, logo and other intellectual property elements belonging to Medscan as of the agreement date, which is the date of the transfer of effective control to the Company ("Acquisition Date"), in exchange for a consideration of Saudi Riyals 37 million. The Company paid the full amount on the agreement date. The legal procedures related to the acquisition were completed during the quarter ended December 31, 2016. According to the terms of the agreement, the Company bears the costs related to the acquisition process.

International Financial Reporting Standard 3, (IFRS 3) "Business Combinations", requires that all identified assets and liabilities acquired in a business combination should be carried at fair values in the acquirer's balance sheet and any intangible assets acquired in the business combination are required to be separately recognised and carried at fair values. IFRS 3 allows the acquirer a maximum period of one year from the date of acquisition to finalise determination of the fair values of the assets and liabilities and to determine the value of any intangible separately identified.

The Company initially recognized Medscan assets and liabilities at provisional fair value which were equal to the book value as of November 23, 2016, which resulted in a goodwill of Saudi Riyals 25.4 million, representing the excess of purchase consideration over the initial book value of the acquired net assets, amounting to Saudi Riyals 11.6 million. During the year ended December 31, 2017, and in compliance with the requirement specified in IFRS-3, the fair valuation exercise of the recorded assets and liabilities was completed by the management as a result of which new information was obtained that necessitated adjustments to the provisional fair values of the acquired net assets. Accordingly, adjustments were made in these consolidated financial statements.

The following is a summary of the values that were initially recognized for the acquired Company on November 23, 2016 (date of acquisition) along with re-measurements for each major category of assets and liabilities:

|                                  | Fair values<br>provisionally<br>determined as at<br>November 23,<br>2016 | Adjustments<br>as a result of<br>finalization<br>of fair value<br>exercise | Fair values<br>finalized and<br>adjusted |
|----------------------------------|--|--|--|
| <b>Current assets:</b>           |  |  |  |
| Cash and bank balances           | 5,586,939  | -  | 5,586,939                                |
| Accounts receivable, net         | 4,301,472  | -  | 4,301,472                                |
| Prepayments and other receivable | 836,856  | -  | 836,856                                  |
|                                  | <u>10,725,267</u>  | -  | <u>10,725,267</u>                        |
| <b>Non-current assets:</b>       |  |  |  |
| Property and equipment, net      | 3,081,054  | 3,023,475  | 6,104,529                                |
| <b>Total assets</b>              | <u>13,806,321</u>  | <u>3,023,475</u>   | <u>16,829,796</u>                        |
| <b>Current liabilities:</b>      |  |  |  |
| Accounts payable                 | 516,165  | -  | 516,165                                  |
| Accrued and other liabilities    | 530,067  | -  | 530,067                                  |
| End of service benefits          | 1,161,453  | -  | 1,161,453                                |
| <b>Total liabilities</b>         | <u>2,207,685</u>   | -  | <u>2,207,685</u>                         |
| <b>Acquired net assets</b>       | <u>11,598,636</u>  | -  | <u>14,622,111</u>                        |
| <b>Investment consideration</b>  | 37,000,000   | -  | 37,000,000                               |
| <b>Goodwill</b>                  | <u>25,401,364</u>  | <u>3,023,475</u>   | <u>22,377,889</u>                        |

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The goodwill of Saudi Riyals 22.4 million is attributable to the high profitability of the acquired business, revenue growth and future market developments of the acquired business.

**5.1 Purchase consideration - cash outflow:**

|  | December 31,<br>2017 | December 31,<br>2016 |
|--|----------------------|----------------------|
| Outflow of cash to acquire subsidiary, net of cash acquired: | -                    | -                    |
| Cash consideration paid                                      | -                    | 37,000,000           |
| Less: Cash balance acquired                                  | -                    | (5,586,939)          |
| Net outflow of cash - investing activity                     | -                    | <u>31,413,061</u>    |

**5.2 Acquired trade receivables**

The fair value of acquired trade receivables were Saudi Riyals 4,301,472. The gross contractual amount for trade receivables due is also Saudi Riyals 4,301,472. No amount is uncollectible from these trade receivables.

**5.3 Revenue and profit contribution**

The acquired business contributed revenues of Saudi Riyals 10.6 million and net income of Saudi Riyals 4.6 million to the Group for the year ended December 31, 2017 and revenues of Saudi Riyals 1.9 million and net income of 0.19 million to the group for the period from November 23, 2016 (acquisition date) to December 31, 2016.

If the acquisition had occurred on 1 January 2016, pro-forma revenue and profit for the year ended December 31, 2016 would have been Saudi Riyals 14 million and Saudi Riyals 1.7 million respectively.

**6 Cash and bank balance**

|                                  | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|----------------------------------|----------------------|----------------------|--------------------|
| Cash on hand                     | 3,042,286            | 3,746,130            | 1,822,630          |
| Cash in banks - Current accounts | <u>24,278,344</u>    | <u>50,789,245</u>    | <u>22,595,562</u>  |
|                                  | <u>27,320,630</u>    | <u>54,535,375</u>    | <u>24,418,192</u>  |

**7 Accounts Receivable, net**

|                                    | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|------------------------------------|----------------------|----------------------|--------------------|
| Trade                              | 22,384,398           | 21,498,268           | 18,320,128         |
| Less: provision for doubtful debts | <u>(1,333,638)</u>   | <u>(1,116,138)</u>   | <u>(855,858)</u>   |
|                                    | <u>21,050,760</u>    | <u>20,382,130</u>    | <u>17,464,270</u>  |

Movement in provision for doubtful debts is as follows:

|             | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|-------------|----------------------|----------------------|--------------------|
| January 1   | 1,116,138            | 855,858              | 640,792            |
| Additions   | 217,500              | 260,280              | 233,066            |
| Write-offs  | -                    | -                    | (18,000)           |
| December 31 | <u>1,333,638</u>     | <u>1,116,138</u>     | <u>855,858</u>     |

As of December 31, 2017 accounts receivable of Saudi Riyals 4.6 million (December 31, 2016: Saudi Riyals 2.7 million and January 1, 2016: Saudi Riyals 2.4 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

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The age analysis of these accounts receivable is as follows:

|   | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|---|----------------------|----------------------|--------------------|
| Up to 3 months                              | 2,363,682            | 641,772              | 1,223,076          |
| More than 3 months to not later than 1 year | 2,219,880            | 2,054,737            | 1,138,061          |
|   | <b>4,583,562</b>     | <b>2,696,509</b>     | <b>2,361,137</b>   |

**8 Inventories, net**

|   | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|---|----------------------|----------------------|--------------------|
| Merchandise:  |                      |                      |                    |
| In stores and warehouses                                      | 577,200,293          | 472,300,888          | 549,822,687        |
| On consignment  | 21,056,054           | 20,393,840           | 20,594,428         |
| Goods in transit  | 23,725,645           | 47,952,290           | 33,211,662         |
|   | 621,981,992          | 540,647,018          | 603,628,777        |
| Less: provision for slow moving items and inventory shortages | (25,289,918)         | (27,363,282)         | (25,818,329)       |
|   | <b>596,692,074</b>   | <b>513,283,736</b>   | <b>577,810,448</b> |

Movement in provision for slow moving items and inventory shortages is as follows:

|             | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|-------------|----------------------|----------------------|--------------------|
| January 1   | 27,363,282           | 25,818,329           | 22,799,914         |
| Additions   | 3,227,045            | 1,544,953            | 3,018,415          |
| Write-offs  | (5,300,409)          | -                    | -                  |
| December 31 | <b>25,289,918</b>    | <b>27,363,282</b>    | <b>25,818,329</b>  |

8.1 Merchandise includes Saudi Riyals 21.1 million (December 31, 2016: Saudi Riyals 20.4 million and January 1, 2016: Saudi Riyals 20.6 million) held with third parties on consignment.

**9 Prepayments and other current receivables**

|                                     | Note | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|-------------------------------------|------|----------------------|----------------------|--------------------|
| Prepaid expenses                    |      | 43,034,349           | 42,185,323           | 36,231,851         |
| Advances to employees               |      | 6,029,381            | 5,350,883            | 5,398,876          |
| Others                              | 9.1  | 9,611,734            | 6,827,398            | 9,530,571          |
| Advances to suppliers               |      | 2,493,419            | 1,785,990            | 4,936,919          |
| Receivable against insurance claims |      | 170,366              | 495,166              | 9,132,336          |
|                                     |      | <b>61,339,249</b>    | <b>56,644,760</b>    | <b>65,230,553</b>  |

9.1 Others includes an amount of Saudi Riyals 4.2 million for delivery and consumable items (December 31, 2016: Saudi Riyals 1.8 million and January 1, 2016: Saudi Riyals 2.2 million), an amount of Saudi Riyals 1.5 million in respect of receivable from Human Resource Development Fund (HRDF) claims (December 31, 2016: Saudi Riyals: Nil and January 1, 2016: Saudi Riyals Nil) and an amount of Saudi Riyals 1.5 million in respect of sub-lease receivables (December 31, 2016: Saudi Riyals 1.7 million and January 1, 2016: Saudi Riyals 1.6 million).

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**10 Available for sale investment**

|                            | Number of<br>shares | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|----------------------------|---------------------|----------------------|----------------------|--------------------|
|                            |                     |                      | % of shareholding    |                    |
| ACE International Hardware | 22,022              | 1.90%                | 1.90%                | 1.90%              |
|                            |                     | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
| ACE International Hardware |                     | 9,662,153            | 9,662,153            | 9,662,153          |

The equity investment of Saudi Riyals 9.662 million in ACE International Hardware (AIH) is measured at fair value based on Saudi Riyals 438.75 per share price through repurchase quotation available from AIH.

**11 Property and equipment**

|                                      | January 1,<br>2017 | Additions         | Disposals          | Transfer<br>from<br>projects-in-<br>progress | December 31,<br>2017 |
|--------------------------------------|--------------------|-------------------|--------------------|--|----------------------|
| <b>2017</b>                          |                    |                   |                    |  |                      |
| <b>Cost:</b>                         |                    |                   |                    |  |                      |
| Land                                 | 17,768,405         | -                 | -                  | -  | 17,768,405           |
| Buildings                            | -                  | 10,765,859        | -                  | 23,523,827                                   | 34,289,686           |
| Leasehold improvements               | 150,552,456        | 46,122,154        | (1,104,484)        | 10,955,334                                   | 206,525,460          |
| Furniture and fixtures               | 59,996,557         | 15,517,258        | (1,416,255)        | 2,145,699                                    | 76,243,259           |
| Computer hardware                    | 22,479,941         | 2,643,683         | (177,804)          | 732,851                                      | 25,678,671           |
| Vehicles                             | 6,972,149          | 6,400,435         | (6,619,888)        | -  | 6,752,696            |
| Tools and equipment                  | 24,010,260         | 2,983,007         | (389,505)          | 715,377                                      | 27,319,139           |
| Projects-in-progress                 | 38,822,488         | 742,815           | (67,247)           | (38,073,088)                                 | 1,424,968            |
| <b>Total</b>                         | <b>320,602,256</b> | <b>85,175,211</b> | <b>(9,775,183)</b> | <b>-</b>                                     | <b>396,002,284</b>   |
| <b>Accumulated<br/>depreciation:</b> |                    |                   |                    |  |                      |
| Buildings                            | -                  | 1,429,594         | -                  | -  | 1,429,594            |
| Leasehold improvements               | 61,286,734         | 16,583,274        | (801,102)          | -  | 77,068,906           |
| Furniture and fixtures               | 33,506,744         | 6,127,232         | (1,270,555)        | -  | 38,363,421           |
| Computer hardware                    | 12,028,159         | 4,514,516         | (153,697)          | -  | 16,388,978           |
| Vehicles                             | 5,788,676          | 1,585,150         | (5,995,493)        | -  | 1,378,333            |
| Tools and equipment                  | 14,883,817         | 2,783,086         | (377,543)          | -  | 17,289,360           |
| <b>Total</b>                         | <b>127,494,130</b> | <b>33,022,852</b> | <b>(8,598,390)</b> | <b>-</b>                                     | <b>151,918,592</b>   |
| <b>Net book value</b>                | <b>193,108,126</b> |                   |                    |  | <b>244,083,692</b>   |

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**11 Property and equipment (continued)**

|                                  | 2016<br>Cost: | January 1,<br>2016 | Additions         | Disposals          | Assets<br>acquired from<br>Medscan | Transfer from<br>projects-in-<br>progress/Re-<br>classification | December 31,<br>2016 |
|----------------------------------|---------------|--------------------|-------------------|--------------------|------------------------------------|---|----------------------|
| Land                             |               | 17,768,405         | -                 | -                  | -                                  | -   | 17,768,405           |
| Leasehold improvements           |               | 121,163,359        | 20,296,725        | (291,968)          | -                                  | -   | 150,552,456          |
| Furniture and fixtures           |               | 52,658,468         | 8,284,251         | (409,177)          | 4,027,967                          | 5,356,373   | 59,996,557           |
| Computer hardware                |               | 15,549,248         | 6,560,051         | (210,733)          | 12,680                             | (549,665)   | 22,479,941           |
| Vehicles                         |               | 5,947,578          | 789,300           | -                  | -                                  | 581,375   | 6,972,149            |
| Tools and equipment              |               | 20,544,456         | 2,051,486         | (417,242)          | 235,271                            | -   | 24,010,260           |
| Projects-in-progress             |               | 15,702,688         | 28,510,832        | -                  | 1,828,611                          | 2,949   | 38,822,488           |
| <b>Total</b>                     |               | <b>249,334,202</b> | <b>66,492,645</b> | <b>(1,329,120)</b> | <b>6,104,529</b>                   | <b>(5,391,032)</b>  | <b>320,602,256</b>   |
| <b>Accumulated depreciation:</b> |               |                    |                   |                    |                                    |   |                      |
| Leasehold improvements           |               | 48,638,434         | 12,842,432        | (192,973)          | -                                  | (1,159)   | 61,286,734           |
| Furniture and fixtures           |               | 28,546,154         | 5,187,615         | (322,367)          | -                                  | 95,342  | 33,506,744           |
| Computer hardware                |               | 8,585,297          | 3,612,354         | (184,330)          | -                                  | 14,838  | 12,028,159           |
| Vehicles                         |               | 4,824,685          | 963,991           | -                  | -                                  | -   | 5,788,676            |
| Tools and equipment              |               | 12,271,756         | 3,103,656         | (382,574)          | -                                  | (109,021)   | 14,883,817           |
| <b>Total</b>                     |               | <b>102,866,326</b> | <b>25,710,048</b> | <b>(1,082,244)</b> | <b>-</b>                           | <b>-</b>  | <b>127,494,130</b>   |
| <b>Net book value</b>            |               | <b>146,467,876</b> |                   |                    |                                    |   | <b>193,108,126</b>   |

The depreciation charge allocation is as follows:

|                                     | 2017              | 2016              |
|-------------------------------------|-------------------|-------------------|
| Cost of revenues                    | 23,104,847        | 19,514,975        |
| General and administrative expenses | 9,918,005         | 6,195,073         |
|                                     | <u>33,022,852</u> | <u>25,710,048</u> |

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**12 Intangible assets**

| <b>2017</b><br><b>Cost</b>      | <b>January 1,<br/>2017</b> | <b>Additions</b>  | <b>Disposals</b> | <b>December 31,<br/>2017</b> |
|---------------------------------|----------------------------|-------------------|------------------|------------------------------|
| Software licenses               | 34,320,821                 | 3,547,737         | (519)            | 37,868,039                   |
| Goodwill                        | 22,377,889                 | -                 | -                | 22,377,889                   |
| Others                          | -                          | 1,325,942         | -                | 1,325,942                    |
| <b>Total</b>                    | <b>56,698,710</b>          | <b>4,873,679</b>  | <b>(519)</b>     | <b>61,571,870</b>            |
| <b>Accumulated amortization</b> |                            |                   |                  |                              |
| Software licenses               | 13,116,591                 | 5,019,995         | (203)            | 18,136,383                   |
| Goodwill                        | -                          | -                 | -                | -                            |
| <b>Total</b>                    | <b>13,116,591</b>          | <b>5,019,995</b>  | <b>(203)</b>     | <b>18,136,383</b>            |
| <b>Net book value</b>           | <b>43,582,119</b>          |                   |                  | <b>43,435,487</b>            |
| <b>2016</b><br><b>Cost</b>      | <b>January 1,<br/>2016</b> | <b>Additions</b>  | <b>Disposals</b> | <b>December 31,<br/>2016</b> |
| Software licenses               | 32,291,778                 | 2,231,356         | (202,313)        | 34,320,821                   |
| Goodwill                        | -                          | 22,377,889        | -                | 22,377,889                   |
| <b>Total</b>                    | <b>32,291,778</b>          | <b>24,609,245</b> | <b>(202,313)</b> | <b>56,698,710</b>            |
| <b>Accumulated amortization</b> |                            |                   |                  |                              |
| Software licenses               | 8,710,132                  | 4,608,772         | (202,313)        | 13,116,591                   |
| Goodwill                        | -                          | -                 | -                | -                            |
| <b>Total</b>                    | <b>8,710,132</b>           | <b>4,608,772</b>  | <b>(202,313)</b> | <b>13,116,591</b>            |
| <b>Net book value</b>           | <b>23,581,646</b>          |                   |                  | <b>43,582,119</b>            |

The amortization charge allocation is as follows:

|                                     | <b>2017</b>      | <b>2016</b>      |
|-------------------------------------|------------------|------------------|
| Cost of revenues                    | 56,089           | 41,510           |
| General and administrative expenses | 4,963,906        | 4,567,262        |
|                                     | <b>5,019,995</b> | <b>4,608,772</b> |

**12.1** Others includes an amount of Saudi Riyals 1.3 million paid as a letting fee to a previous tenant to acquire possession of leasehold land located in King Abdulaziz Port.

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**12.2 Impairment tests for goodwill**

The Goodwill is related to the acquisition of Medscan Terminal Company. Goodwill is monitored by the management at the level of only one cash-generating unit (Medscan). A segment level of summary of the goodwill allocation is presented below:

|                                  | <b>December 31, 2017</b> | <b>December 31, 2016</b> |
|----------------------------------|--------------------------|--------------------------|
| Medscan Terminal Company Limited | <u>22,377,889</u>        | <u>22,377,889</u>        |

The management carried out an impairment exercise in respect of goodwill. The impairment test carried out was based on a discounted cash flow analysis which utilized the most recent five year business plan prepared by the Group's management. The results of this exercise did not result in any impairment loss to be recognized.

However, Management determined forecast sales growth and Gross margin based on past performance and market developments.

Terminal value is calculated using free cash flow to the CGU and Gordon Growth Model for the final year of the forecasted period.

**12.3** The following table sets out the key assumptions for CGU that has significant goodwill allocated to it:

|                                   |        |
|-----------------------------------|--------|
| Sales Volume (Annual Growth Rate) | 8%     |
| Discount Rate                     | 12.67% |
| Long Term Growth rate             | 2%     |

Management has determined the values assigned to each of the above key assumptions as follows:

|                       |   |
|-----------------------|---|
| Sales volume          | Average annual growth rate over the five-year forecast period, based on past performance and management's expectations of market development.                                       |
| Long term growth rate | This is the weighted average growth rate used to extrapolate cash flows beyond the five-year forecast period. The rates are consistent with forecasts included in industry reports. |

**12.4 Sensitivity to changes in assumptions**

With regard to the assessment of value in use of the cash generating units, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

**13 Borrowings**

|  | <b>December 31,<br/>2017</b> | <b>December 31,<br/>2016</b> | <b>January 1,<br/>2016</b> |
|--|------------------------------|------------------------------|----------------------------|
| Short-term borrowings                        | 34,026,405                   | 10,211,807                   | 120,194,796                |
| Long-term borrowings                         | 98,662,778                   | 65,608,973                   | 76,597,108                 |
| <b>Total loans</b>                           | <b>132,689,183</b>           | <b>75,820,780</b>            | <b>196,791,904</b>         |
| Current maturity of long-term borrowings     | 15,787,778                   | 15,946,194                   | 63,738,135                 |
| Non-current maturity of long-term borrowings | 82,875,000                   | 49,662,779                   | 12,858,973                 |
| Short-term borrowings                        | 34,026,405                   | 10,211,807                   | 120,194,796                |
| <b>Total loans</b>                           | <b>132,689,183</b>           | <b>75,820,780</b>            | <b>196,791,904</b>         |

The Group obtained borrowing facilities in the amount of Saudi Riyals 440 million from various local banks. Such facilities provide facilities for short and long-term borrowings, letters of credit and guarantee and notes payable for bills of exchange to finance working capital, investments, and capital expenditures. These facilities, which are in form of Murabaha and Tawarrog financing, bear financial charges at prevailing market rates based on Saudi Inter-bank Offer Rate ("SIBOR") and Riyadh Inter-bank Offer Rate ("Ribor").



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These facility agreements also include covenants which require maintenance of certain financial ratios, restrict payments of dividends and other requirements which the Group was in compliance with as of December 31, 2017.

These facilities as of December 31, 2017 include a loan in the amount of Saudi Riyals 25 million for the construction of the Group's Head Office building and the land of the Head Office with the book value of Saudi Riyals 17.7 million was designated as a collateral against this loan. The unused portion of those facilities amounted to Saudi Riyals 250 million as of December 31, 2017.

Maturity profile of non-current portion of long-term borrowings is as follows:

|                     | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|---------------------|----------------------|----------------------|--------------------|
| After 1 year        | 15,610,112           | 10,787,779           | 9,008,695          |
| Within 2 to 5 years | 67,264,888           | 38,875,000           | 3,850,278          |
|                     | <b>82,875,000</b>    | <b>49,662,779</b>    | <b>12,858,973</b>  |

**14 Accounts payable**

|                                   | Note | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|-----------------------------------|------|----------------------|----------------------|--------------------|
| Trade                             |      | 126,328,508          | 124,139,905          | 89,999,437         |
| Related party - affiliate company | 26   | 1,517,944            | 376,104              | 819,900            |
|                                   |      | <b>127,846,452</b>   | <b>124,516,009</b>   | <b>90,819,337</b>  |

**15 Accrued and other current liabilities**

|   | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|---|----------------------|----------------------|--------------------|
| Gift cards and vouchers                     | 29,321,393           | 33,456,197           | 33,331,737         |
| Advances from customers                     | 625,922              | 4,564,473            | 4,914,785          |
| Accounts payable, non-commercial (services) | 30,775,273           | 26,188,329           | 21,523,226         |
| Accrued employee benefits                   | 22,284,348           | 21,104,421           | 16,281,783         |
| Accrued expenses                            | 7,178,446            | 7,753,893            | 4,438,668          |
| Accrued rentals                             | 2,742,302            | 9,781,322            | 7,732,911          |
| Advance rent received                       | 118,951              | 239,427              | 326,811            |
|   | <b>93,046,635</b>    | <b>103,088,062</b>   | <b>88,549,921</b>  |

**16 Dividends**

In accordance with extra-ordinary general assembly meeting held on May 4, 2017, the Company's shareholders resolved to delegate the authority to the Board of Directors to distribute dividends to the shareholders for the year 2017. Accordingly, the Board of Directors in its meeting held on July 26, 2017 resolved to distribute cash dividends to the Company's shareholders amounting to Saudi Riyals 42 million (Saudi Riyals 1.75 per share). The dividend was distributed on October 11, 2017.

In accordance with extra-ordinary general assembly meeting held on April 20, 2016, the Company's shareholders resolved to delegate the authority to the Board of Directors to distribute dividends to the shareholders for the year 2016. Accordingly, the Board of Directors in its meetings held on April 19, 2016 and October 16, 2016 resolved to distribute cash dividends to the Company's shareholders amounting to Saudi Riyals 36 million and Saudi Riyals 36 million, respectively, (Saudi Riyals 1.5 per share). The dividend was distributed during the years 2016 and 2017.

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**17 Zakat Matters**

**17.1 Calculation of adjusted net income**

|                                     | For the year ended   |                      |                    |
|-------------------------------------|----------------------|----------------------|--------------------|
|                                     | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
| Income before zakat                 | 145,334,655          | 136,374,938          | 134,535,432        |
| Depreciation differences - per GAZT | -                    | 7,536,828            | 7,016,615          |
| Provisions during the year          | 11,011,476           | 8,623,250            | 8,157,340          |
| Adjusted net income for the year    | <b>156,346,131</b>   | <b>152,535,016</b>   | <b>149,709,387</b> |

**17.2 Components of zakat base**

The significant components of the zakat base of the Group under zakat regulations are as follows:

|   | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|---|----------------------|----------------------|--------------------|
| Shareholder's equity at beginning of the year       | 506,600,643          | 456,433,418          | 378,326,436        |
| Adjusted net income for the year                    | 156,346,131          | 152,535,016          | 149,709,387        |
| Long term borrowings - Per GAZT                     | 44,662,778           | 21,725,966           | 23,003,069         |
| Provisions at beginning of the year                 | 55,552,061           | 53,548,930           | 47,823,042         |
| Property and equipment                              | (244,083,692)        | (221,790,502)        | (175,565,212)      |
| Dividends paid                                      | (42,000,000)         | (35,937,686)         | (48,000,000)       |
| Investment available for sale and intangible assets | (53,097,640)         | (51,086,914)         | (31,385,667)       |
| Approximate zakat base                              | <b>423,980,281</b>   | <b>375,428,228</b>   | <b>343,911,055</b> |

Components of zakat base for the years ended December 31, 2016 and January 1, 2016 are presented based on previous Saudi GAAP.

**17.3 Provision for zakat**

|                             | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|-----------------------------|----------------------|----------------------|--------------------|
| January, 1                  | 11,082,842           | 9,481,187            | 7,857,660          |
| Provisions for current year | 10,435,457           | 10,199,442           | 8,428,450          |
| Payments                    | (9,975,972)          | (8,597,787)          | (6,804,923)        |
| December, 31                | <b>11,542,327</b>    | <b>11,082,842</b>    | <b>9,481,187</b>   |

**17.4** The Company filed its zakat returns through the years up to 2016. The GAZT has finalized the zakat assessments of the company through the years ended December 31, 2006. The Company has not received the final assessments from the GAZT for the years from 2007 to 2016.

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**18 End of service benefits**

Provision for end of service benefits is made in accordance with the relevant labor laws, assuming the maximum payable based on current remuneration and cumulative years of service at the end of the reporting period.

The following table summarizes the components of net benefit expense recognized in the consolidated statement of comprehensive income:

|   | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|---|----------------------|----------------------|--------------------|
| Opening balance                               | 34,027,749           | 29,362,816           | 29,030,146         |
| <b>Charged to profit and loss:</b>            |                      |                      |                    |
| Current service cost                          | 6,645,562            | 5,944,335            | 4,062,244          |
| Interest cost                                 | 854,246              | 738,538              | 743,615            |
| End of service paid during the year           | (2,661,967)          | (3,179,393)          | (4,473,189)        |
| Transfer from the acquired subsidiary         | -                    | 1,161,453            | -                  |
| <b>Charged to other comprehensive income:</b> |                      |                      |                    |
| Actuarial (gains) and losses                  | -                    | -                    | -                  |
| <b>Ending balance</b>                         | <b>38,865,590</b>    | <b>34,027,749</b>    | <b>29,362,816</b>  |

**Actuarial assumptions:**

|                           | 2017  | 2016  |
|---------------------------|-------|-------|
| Discount rate             | 3.40% | 3.40% |
| Future salary growth rate | 4.02% | 4.02% |

**Sensitivity Analysis of end of service benefits:**

|   | 2017    | 2016    |
|---|---------|---------|
| Discount rate 1% increases                | 76,910  | 44,391  |
| Discount rate 1% decreases                | 189,345 | 69,162  |
| Future salary growth rate if 1% increases | 398,556 | 372,431 |
| Future salary growth rate if 1% decreases | 380,837 | 353,542 |

**Employee Data:**

|                                     | 2017  | 2016  |
|-------------------------------------|-------|-------|
| Total No. of employees              | 2,392 | 2,354 |
| Average age of employees (in years) | 33    | 33    |

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

The expected maturity analysis of undiscounted employee benefits obligations is as follows:

|                     | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|---------------------|----------------------|----------------------|--------------------|
| Less than a year    | 3,570,846            | 3,671,667            | 4,596,335          |
| Between 1 – 5 years | 17,295,651           | 14,735,362           | 17,544,040         |
| Over 5 years        | 78,326,693           | 72,467,567           | 50,430,982         |

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**19 Share Capital**

The share capital of the Company as of December 31, 2017 was comprised of 24,000,000 shares (December 31, 2016: 24,000,000 shares and January 1, 2016: 24,000,000 shares) with a nominal value of Saudi Riyals 10 per share.

**20 Statutory reserve**

In accordance with the superseded Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equals 50% of its share capital. On May 6, 2016, the required percentage under the new provisions of the Regulations of Companies was changed to at least 30%. The Company has accordingly amended its by-laws during 2017 to comply with the new regulations. This reserve is currently not available for distribution to the shareholders of the Company.

**21 Revenue**

|                  | <b>Note</b> | <b>2017</b>          | <b>2016</b>          |
|------------------|-------------|----------------------|----------------------|
| Sales, net       |             | 1,437,572,048        | 1,314,579,379        |
| Service revenues | 21.1        | 18,360,227           | 9,510,690            |
|                  |             | <b>1,455,932,275</b> | <b>1,324,090,069</b> |

**21.1 Service revenues**

Service revenues represent Services Department's income from delivery, installation and maintenance of items sold to customers and the service revenue of Medscan.

**22 Cost of revenues**

|   | <b>2017</b>          | <b>2016</b>          |
|---|----------------------|----------------------|
| Purchase of goods                                 | 883,614,367          | 799,953,274          |
| Salaries and other benefits                       | 125,894,718          | 114,158,254          |
| Rentals and leasehold expenses                    | 81,132,597           | 74,309,400           |
| Depreciation and amortization                     | 23,160,936           | 19,556,485           |
| Loss from shrinkage and inventory shortages       | 17,922,516           | 15,271,510           |
| Franchisee Commission                             | 15,022,812           | 12,882,665           |
| Provision for slow moving inventory and shrinkage | 3,227,045            | 1,544,953            |
| Others  | 21,275,608           | 25,817,141           |
|   | <b>1,171,250,599</b> | <b>1,063,493,682</b> |

**23 Selling and marketing expenses**

|                                    | <b>2017</b>       | <b>2016</b>       |
|------------------------------------|-------------------|-------------------|
| Salaries and other benefits        | 1,928,683         | 3,025,185         |
| Advertising and promotion expenses | 23,938,263        | 20,808,045        |
|                                    | <b>25,866,946</b> | <b>23,833,230</b> |

**24 General & Administrative Expenses**

|                                | <b>2017</b>        | <b>2016</b>       |
|--------------------------------|--------------------|-------------------|
| Salaries and Other benefits    | 61,037,685         | 50,453,264        |
| Rentals and leasehold expenses | 12,492,583         | 13,154,286        |
| Services                       | 18,473,090         | 19,044,962        |
| Depreciation and amortization  | 14,881,911         | 10,762,335        |
| Provision for doubtful debts   | 217,500            | 260,280           |
| Others                         | 1,773,726          | 1,193,890         |
|                                | <b>108,876,495</b> | <b>94,869,017</b> |

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**25 Financial Charges**

|                              | 2017             | 2016             |
|------------------------------|------------------|------------------|
| Interest on short term loans | 1,551,211        | 2,267,319        |
| Interest on long term loans  | 3,172,402        | 1,099,366        |
| Bank and other charges       | 2,721,082        | 2,006,159        |
|                              | <b>7,444,695</b> | <b>5,372,844</b> |

**26 Related party transactions and balances**

**26.1 Senior management remuneration**

The aggregate amount charged in the consolidated financial statements for remuneration, including all benefits to Chief Executive Officer (CEO), Directors and Executives of the Company for the years ended December 31, 2017 and 2016 is as follows:

| Description             | December 31, 2017 |           |                  |           | December 31, 2016 |           |                  |           |
|-------------------------|-------------------|-----------|------------------|-----------|-------------------|-----------|------------------|-----------|
|                         | CEO               | Directors | Other executives | Total     | CEO               | Directors | Other executives | Total     |
| Managerial remuneration | 726,650           | 1,453,300 | 1,218,400        | 3,398,350 | 728,400           | 1,156,800 | 744,222          | 2,629,422 |
| Allowances              | 280,000           | 582,500   | 573,853          | 1,436,353 | 720,000           | 938,100   | 557,600          | 2,215,700 |
| Bonuses                 | -                 | -         | 520,000          | 520,000   | -                 | -         | 254,326          | 254,326   |
| Other Benefits          | 168,132           | 235,743   | -                | 403,875   | 130,282           | 175,470   | -                | 305,752   |
| End of Service Benefits | 75,000            | 121,875   | 249,500          | 446,375   | 18,750            | 55,417    | 72,094           | 146,261   |
| Board member fees       | 200,000           | 1,500,000 | -                | 1,700,000 | 100,000           | 796,000   | -                | 896,000   |

**26.2 Other related parties**

| Name of related party  | Nature of Relationship | Nature of transactions             | 2017       | 2016      |
|--|------------------------|------------------------------------|------------|-----------|
|  |                        |                                    | Amount     | Amount    |
| Inheritance of Abdullah Taha Baksh Saudi Arabian Marketing and Agencies Company Ltd. | Major shareholder      | Rental agreement for two showrooms | 3,703,183  | 4,053,575 |
|  | Major shareholder      | Purchases                          | 10,543,844 | 9,548,369 |

**26.3 Related party balances**

|   | December 31, 2017 | December 31, 2016 | January 1, 2016 |
|---|-------------------|-------------------|-----------------|
| Saudi Arabian Marketing and Agencies Company Ltd. | 1,517,944         | 376,104           | 819,900         |

**27 Contingencies and commitments**

- (i) As of December 31, 2017, the Group has letters of credit and letters of guarantee of Saudi Riyals 57.11 million (December 31, 2016: Saudi Riyals 105.8 million). The capital commitments related to ongoing activities of the Company's various exhibitions, amounted to Saudi Riyals 2.25 million as of December 31, 2017 (December 31, 2016: Saudi Riyals 30.2 million).
- (ii) As of December 31, 2017, the Group has future lease commitments under operating leases of Saudi Riyals 695 million (December 31, 2016: Saudi Riyals 740.9 million).
- (iii) The Group is subject to litigation in the normal course of its business. The Group does not believe that the outcome of these court cases will have any material impact on the Group's results or financial position.

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Future rental commitments at December 31, under the operating leases are as follows:

|            | 2017               | 2016               |
|------------|--------------------|--------------------|
| 2017       | -                  | 48,468,303         |
| 2018       | 72,083,878         | 84,266,594         |
| 2019       | 70,964,009         | 72,880,058         |
| 2020       | 50,935,589         | 62,702,419         |
| 2021       | 58,471,159         | 49,481,583         |
| 2022       | 53,465,352         | 49,055,042         |
| Thereafter | 389,648,861        | 370,821,257        |
|            | <b>695,568,848</b> | <b>737,675,256</b> |

**28 Earnings per share (EPS)**

Basic earnings per share is calculated by dividing the income for the year attributable to ordinary equity holders of the parent 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.

The EPS calculation is given below:

|  | 2017        | 2016        |
|--|-------------|-------------|
| Income attributable to ordinary equity holders of the parent | 134,899,198 | 128,970,670 |
| Weighted average number of shares in issue during the year   | 24,000,000  | 24,000,000  |
| Earnings per share (in Saudi Riyals)                         | <b>5.62</b> | <b>5.37</b> |

There is no dilutive effect on the basic earnings per share of the Company.

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**29 Segment information**

The Group has two major operating segments namely, sales and services and logistic services.

**Sales and Services segment:** This segment include sale of goods made to retail and wholesale customers. Service department represent services department's income from delivery, installation and maintenance of items sold.

**Logistic Services:** The logistics and related services segment provides a comprehensive logistics offering to its clients, including freight forwarding, transportation and contract logistics.

The Group's Chief Executive Officer (Chief Operating Decision Maker) reviews the internal management reports of each segment at least quarterly for the purpose of resources allocation and assessment of performance. Operating segments are organized based on factors including distribution method, targeted customers and geographic location.

The segment information provided to the strategic steering committee for the operating segment as of and for the years ended December 31, 2017 and 2016 is as follows:

|   | <b>Sales and services</b> | <b>Logistic services</b> | <b>Total</b>       |
|---|---------------------------|--------------------------|--------------------|
| <b>For the year ended December 31, 2017</b> |                           |                          |                    |
| <b>Revenues:</b>                            |                           |                          |                    |
| Total segment revenues                      | 1,445,288,263             | 17,790,637               | 1,463,078,900      |
| Inter-segment revenues                      | -                         | (7,146,625)              | (7,146,625)        |
| Revenue from external customers             | 1,445,288,263             | 10,644,012               | 1,455,932,275      |
| <b>Income from operations</b>               | <b>145,462,970</b>        | <b>4,475,265</b>         | <b>149,938,235</b> |
| Financial charges                           | (7,444,695)               | -                        | (7,444,695)        |
| Other income                                | 2,559,568                 | 281,547                  | 2,841,115          |
| <b>Income before zakat</b>                  | <b>140,577,843</b>        | <b>4,756,812</b>         | <b>145,334,655</b> |
| Zakat                                       | (10,273,367)              | (162,090)                | (10,435,457)       |
| <b>Net income for the year</b>              | <b>130,304,476</b>        | <b>4,594,722</b>         | <b>134,899,198</b> |
| <b>For the year ended December 31, 2016</b> |                           |                          |                    |
| <b>Revenues:</b>                            |                           |                          |                    |
| Total segment revenues                      | 1,322,183,437             | 2,220,042                | 1,324,403,479      |
| Inter-segment revenues                      | -                         | (313,410)                | (313,410)          |
| Revenue from external customers             | 1,322,183,437             | 1,906,632                | 1,324,090,069      |
| <b>Income from operations</b>               | <b>141,589,068</b>        | <b>305,072</b>           | <b>141,894,140</b> |
| Financial charges                           | (5,372,844)               | -                        | (5,372,844)        |
| Other income                                | 2,646,416                 | 2,400                    | 2,648,816          |
| <b>Income before zakat</b>                  | <b>138,862,640</b>        | <b>307,472</b>           | <b>139,170,112</b> |
| Zakat                                       | (10,072,942)              | (126,500)                | (10,199,442)       |
| <b>Net income for the year</b>              | <b>128,789,698</b>        | <b>180,972</b>           | <b>128,970,670</b> |
| <b>Other segment information:</b>           |                           |                          |                    |
| <b>For the year ended December 31, 2017</b> |                           |                          |                    |
| Capital Expenditure                         | 84,560,856                | 5,488,034                | 90,048,890         |
| Depreciation and amortization               | 36,633,329                | 1,409,518                | 38,042,847         |
| <b>For the year ended December 31, 2016</b> |                           |                          |                    |
| Capital Expenditure                         | 66,761,262                | 1,753,816                | 68,515,078         |
| Depreciation and amortization               | 29,552,227                | 766,593                  | 30,318,820         |
| <b>Total segment assets:</b>                |                           |                          |                    |
| December 31, 2017                           | 987,574,738               | 16,009,307               | 1,003,584,045      |
| December 31, 2016                           | 877,300,337               | 13,898,062               | 891,198,399        |
| <b>Total segment liabilities:</b>           |                           |                          |                    |
| December 31, 2017                           | 400,832,141               | 3,252,063                | 404,084,204        |
| December 31, 2016                           | 382,479,302               | 2,118,454                | 384,597,756        |

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**30 Financial instruments by category**

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. The Group holds various financial instruments in the ordinary course of its activities.

**Loans and receivables**

|  | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|--|----------------------|----------------------|--------------------|
| Cash and bank balances                               | 27,320,630           | 54,535,375           | 24,418,192         |
| Accounts receivable, net                             | 21,050,760           | 20,382,130           | 17,464,270         |
| Other current assets*                                | 7,577,360            | 7,014,094            | 6,986,694          |
|  | <b>55,948,750</b>    | <b>81,931,599</b>    | <b>48,869,156</b>  |
| <b>Available for sale</b>                            |                      |                      |                    |
| Available for sale investment                        | <b>9,662,153</b>     | <b>9,662,153</b>     | <b>9,662,153</b>   |
| <b>Other financial liabilities at amortized cost</b> |                      |                      |                    |
| Borrowings (Short and long-term)                     | 132,689,183          | 75,820,780           | 196,791,904        |
| Accounts payable                                     | 127,846,452          | 124,516,009          | 90,819,337         |
| Other current liabilities*                           | 40,696,021           | 43,723,544           | 33,694,805         |
|  | <b>301,231,656</b>   | <b>244,060,333</b>   | <b>321,306,046</b> |

The carrying amount of financial assets approximates their fair value. Financial assets are not considered to pose a significant credit risk. Trade receivables are due from customers who have been assessed for credit worthiness prior to entering into transactions with them.

\*Other current assets includes advances to employees and sub-lease receivables.

\*Other current liabilities includes accounts payable, non-commercial (services) and accrued expenses

**31 Financial Risk Management Objectives And Policies**

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

**31.1 Market risk**

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

**31.1.1 Interest rate risk**

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group manages the interest rate risk by regularly monitoring the interest rate profiles of its interest bearing financial instruments. At December 31, 2017, if interest rates had been 1% higher/lower with all other variables held constant, future interest on outstanding loans will increase/decrease by Saudi Riyals 1.1 million (2016: Saudi Riyals 0.361 million).

**31.1.2 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyals, United Arab Emirates dirham (AED) and US Dollars, during the year and, accordingly, the Group has no significant exposure to other foreign currencies at the year ended December 31, 2017. Since the Saudi Riyal is pegged to the US Dollar and United Arab Emirates dirham, the Group is not exposed to significant foreign currency risk.



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**31.1.3 Other price risk**

Other price risk is the risk that the fair value of future cash flows of the financial instruments will fluctuate because of changes in market prices. The impact on the consolidated statement of financial position or the consolidated statement of comprehensive income would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5%.

**31.2 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. To reduce exposure to credit risk the Group has developed a formal approval process whereby credit limits are applied to its customers. The management also continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery. To mitigate the risk, the Group has a system of assigning credit limits to its customers based on an extensive evaluation based on customer profile and payment history. Outstanding customer receivables are regularly monitored.

The Group's gross maximum exposure to credit risk at the reporting date is as follows:

|                          | <b>December 31,<br/>2017</b> | <b>December 31,<br/>2016</b> | <b>January 1,<br/>2016</b> |
|--------------------------|------------------------------|------------------------------|----------------------------|
| Bank balances            | 24,278,344                   | 50,789,245                   | 22,595,562                 |
| Accounts receivable, net | 21,050,760                   | 20,382,130                   | 17,464,270                 |
| Other current assets*    | 7,577,360                    | 7,014,094                    | 6,986,694                  |
|                          | <b>52,906,464</b>            | <b>78,185,469</b>            | <b>47,046,526</b>          |

\*Other current assets includes advances to employees and sub-lease receivables.

**Credit quality of financial assets**

Trade receivables are due from customers who have been assessed for credit worthiness prior to assigning the credit limits. The receivable are shown net of allowance for impairment of trade receivables and sales returns.

Cash at bank is placed with local banks having sound credit rating.

Other current assets includes advances to employees and sublease receivables. Sub-lease receivables are due from customers who have been assessed for credit worthiness prior to executing the sub-lease agreement. Employee loans are secured against end of service balances.

**31.3 Liquidity Risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments. The Group has no significant concentration of liquidity risk. For instance, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowings or reliance on a particular market in which to realize liquid assets.

The following is contractual undiscounted maturity analysis of the financial liabilities of the Group as at December 31, 2017, December 31, 2016 and January 1, 2016. The Group does not hold financial assets for managing liquidity risk. Hence, these risks have not been considered for maturity analysis.

|                              | <b>Less than 1 year</b> | <b>1 to 5 years</b> | <b>Total</b>       |
|------------------------------|-------------------------|---------------------|--------------------|
| <b>December 31, 2017</b>     |                         |                     |                    |
| <b>Financial liabilities</b> |                         |                     |                    |
| Borrowings                   | 53,169,606              | 92,604,168          | 145,773,774        |
| Accounts payable             | 127,846,452             | -                   | 127,846,452        |
| Other current liabilities*   | 40,696,021              | -                   | 40,696,021         |
|                              | <b>221,712,079</b>      | <b>92,604,168</b>   | <b>314,316,247</b> |

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|                              | Less than 1<br>year | 1 to 5 years      | Total              |
|------------------------------|---------------------|-------------------|--------------------|
| <b>December 31, 2016</b>     |                     |                   |                    |
| <b>Financial liabilities</b> |                     |                   |                    |
| Borrowings                   | 28,040,616          | 52,226,398        | 80,267,014         |
| Accounts payable             | 124,516,009         | -                 | 124,516,009        |
| Other current liabilities*   | 43,723,544          | -                 | 43,723,544         |
|                              | <b>196,280,169</b>  | <b>52,226,398</b> | <b>248,506,567</b> |
|                              |                     |                   |                    |
|                              | Less than 1<br>year | 1 to 5 years      | Total              |
| <b>January 1, 2016</b>       |                     |                   |                    |
| <b>Financial liabilities</b> |                     |                   |                    |
| Borrowings                   | 187,028,503         | 13,241,254        | 200,269,757        |
| Accounts payable             | 90,819,337          | -                 | 90,819,337         |
| Other current liabilities*   | 33,694,805          | -                 | 33,694,805         |
|                              | <b>311,542,645</b>  | <b>13,241,254</b> | <b>324,783,899</b> |

\* Other current liabilities includes accounts payable, non-commercial (services) and accrued expenses.

### 32 Capital risk management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2017, December 31, 2016 and January 1, 2016.

|                                  | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|----------------------------------|----------------------|----------------------|--------------------|
| Borrowings                       | 132,689,183          | 75,820,780           | 196,791,904        |
| Cash and bank balances           | 27,320,630           | 54,535,375           | 24,418,192         |
| <b>Net debt</b>                  | <b>105,368,553</b>   | <b>21,285,405</b>    | <b>172,373,712</b> |
|                                  |                      |                      |                    |
| Share capital                    | 240,000,000          | 240,000,000          | 240,000,000        |
| Statutory reserve                | 57,701,439           | 44,211,519           | 31,612,067         |
| Retained earnings                | 300,396,702          | 220,987,424          | 176,616,206        |
| Fair value reserve               | 1,401,700            | 1,401,700            | 1,401,700          |
| <b>Equity</b>                    | <b>599,499,841</b>   | <b>506,600,643</b>   | <b>449,629,973</b> |
| <b>Capital gearing ratio (%)</b> | <b>17.58%</b>        | <b>4.20%</b>         | <b>38.34%</b>      |

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**33 Fair value measurements**

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. Underlying the definition of fair value is the presumption that the Company is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

When measuring the fair value the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

The carrying amount of financial assets and financial liabilities approximates their fair value. The Group only presents available for sale investment under fair valuation model.

The following table shows the fair values of financial asset, including its level in the fair value hierarchy.

|                               | December 31,<br>2017 | December 31,<br>2016 | January 1,<br>2016 |
|-------------------------------|----------------------|----------------------|--------------------|
| <b>Level 3</b>                |                      |                      |                    |
| Available for sale investment | 9,662,153            | 9,662,153            | 9,662,153          |

The valuation technique used for measuring available for sale investment is disclosed in Note 10 to these consolidated financial statements.

**34 Changes in liabilities arising from financing activities**

|  | January 1,<br>2017 | Cash flows        | Other        | December<br>31, 2017 |
|--|--------------------|-------------------|--------------|----------------------|
| Short term borrowings                              | 10,211,807         | 23,814,598        | -            | 34,026,405           |
| Current portion of long-term borrowings            | 15,946,194         | (20,946,195)      | 20,787,779   | 15,787,778           |
| Non-current portion of long-term borrowings        | 49,662,779         | 54,000,000        | (20,787,779) | 82,875,000           |
| <b>Total liabilities from financing activities</b> | <b>75,820,780</b>  | <b>56,868,403</b> | <b>-</b>     | <b>132,689,183</b>   |

The 'Other' column includes the effect of reclassification of non-current portion of interest-bearing borrowing to current due to the passage of time.

**35 Events occurring after the reporting period**

The Company's Board of Directors have resolved in their meeting held on February 8, 2018 to propose a distribution of cash dividends to the Company's shareholders amounting to Saudi Riyals 36 million (Saudi Riyals 1.5 per share) for the second half of 2017. The dividends payment process started on Wednesday, March 21, 2018.

**36 Approval of the consolidated financial statements**

These consolidated financial statements have been approved by the Board of Directors on March 29, 2018, corresponding to 12 Rajab 1439H.