

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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

WITH INDEPENDENT AUDITOR'S REVIEW REPORT

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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

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**REPORT ON REVIEW OF CONDENSED
CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of **United Electronics Company** (the "Company") and its Subsidiaries (collectively referred to as the "Group") as of June 30, 2018, and the related condensed consolidated interim statement of profit or loss and other comprehensive income for the three and six-month period ended June 30, 2018 and condensed consolidated interim statements of changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standards 34 "Interim Financial Reporting" as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement endorsed by Saudi Organization of Certified Public Accountants. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as endorsed in the Kingdom of Saudi Arabia. A review of interim condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standards 34 as endorsed in the Kingdom of Saudi Arabia.

PKF Al-Bassam & Co.
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UNITED ELECTRONICS COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2018

	June 30, 2018 (Unaudited) SR	December 31, 2017 (Audited) SR
	Note	
ASSETS		
Non-current assets		
Property and equipment	17	431,391,389
Intangible assets		36,867,223
Deferred tax assets		235,299
Trade and other receivables – Non-current portion		4,577,706
Installment sales receivable – Non-current portion	6	60,833,233
		<u>533,904,850</u>
Current assets		
Inventories		709,290,839
Trade and other receivables		105,296,834
Installment sales receivable - Current portion	6	187,412,272
Cash and cash equivalents	7	83,414,310
		<u>1,085,414,255</u>
TOTAL ASSETS		<u>1,619,319,105</u>
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1	420,000,000
Statutory reserve	8	31,818,921
Retained earnings		127,733,845
Foreign currency translation reserve		(47,000)
Actuarial reserve		813,163
		<u>580,318,929</u>
LIABILITIES		
Non-current liabilities		
Deferred revenue from additional services program– non-current portion		64,724,889
Deferred revenue from sale and leaseback – non-current portion	9	1,912,477
Operating lease liability – non-current portion		16,540,510
End of service benefits		57,531,961
Finance lease liability - non-current portion		83,850
		<u>140,793,687</u>
Current liabilities		
Trade and other payables	12,15	703,375,027
Deferred revenue from additional services program – Current portion		49,089,688
Deferred revenue from sale and leaseback – current portion	9	136,596
Operating lease liability– current portion		2,520,656
Murabah finance – current portion	10	140,000,000
Zakat provision		3,045,222
Finance lease – Non current		39,300
		<u>898,206,489</u>
Total liabilities		<u>1,039,000,176</u>
TOTAL EQUITY AND LIABILITIES		<u>1,619,319,105</u>

The condensed consolidated interim financial statements were approved and authorized for issue by the board of directors, on behalf of the shareholders and were signed on its behalf on July 26, 2018.

Chief Financial Officer

Board Member & Chief Executive Officer

The accompanying notes 1 through 22 form an integral part of these condensed consolidated interim financial statements

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

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018**

	Note	For three months period ended		For six months period ended	
		June 30, 2018	June 30 2017	June 30, 2018	June30, 2017
		(Unaudited) SR	(Unaudited) SR	(Unaudited) SR	(Unaudited) SR
Revenue, net	11	1,015,359,105	1,013,905,244	1,879,979,316	1,818,576,250
Cost of revenue	11	(830,239,458)	(841,613,972)	(1,541,903,307)	(1,511,883,310)
Gross profit		185,119,647	172,291,272	338,076,009	306,692,940
Selling, marketing and distribution expenses		(108,280,593)	(104,927,932)	(211,210,476)	(202,679,071)
Administrative expenses		(25,366,451)	(23,281,508)	(50,205,312)	(45,903,270)
Other expenses		(1,467,295)	(680,392)	(1,467,295)	(888,300)
Other income		264,418	557,520	873,395	723,103
Finance cost		(2,706,176)	(145,528)	(5,796,255)	(252,567)
Net profit before zakat		47,563,550	43,813,432	70,270,066	57,692,835
Zakat	19	(1,973,651)	(204,021)	(3,108,262)	(1,090,377)
Deferred tax expense		-	(240,167)	-	(240,167)
Net profit for the period		45,589,899	43,369,244	67,161,804	56,362,291
OTHER COMPREHENSIVE INCOME					
<i>Item that may be reclassified subsequently to statement of income:</i>					
Exchange differences on translation of foreign operation		50,163	8,835	54,155	20,399
Total comprehensive income for the period		45,640,062	43,378,079	67,215,959	56,382,690
Net income for the period attributable to:					
Shareholders of the Company		45,589,899	43,369,244	67,161,804	56,362,291
Total comprehensive income for the period attributable to:					
Shareholders of the Company		45,640,062	43,378,079	67,215,959	56,382,690
Income per share					
Basic and diluted income per share (Saudi Riyal per share)	13	1.09	1.03	1.60	1.34

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Board Member & Chief Executive Officer

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2018

	Share Capital	Statutory reserve	Retained earnings	Foreign currency translation reserve	Actuarial reserves	Equity attributable to shareholders of the Company
	SR	SR	SR	SR	SR	SR
Balance as at January 1, 2017	360,000,000	66,088,888	30,643,498	(104,641)	-	456,627,745
Net income for the period	-	-	56,362,291	-	-	56,362,291
Transfer to statutory reserve	-	5,636,229	(5,636,229)	-	-	-
Other comprehensive income	-	-	-	20,399	-	20,399
Share capital increased	60,000,000	(55,000,000)	(5,000,000)	-	-	-
Balance at June 30, 2017	420,000,000	16,725,117	76,369,560	(84,242)	-	513,010,435
Balance as at January 1, 2018	420,000,000	25,102,741	120,268,174	(101,155)	813,163	566,082,923
Adjustment on adoption of IFRS 9	-	-	(479,953)	-	-	(479,953)
Balance as at January 1, 2018 (Adjusted)	420,000,000	25,102,741	119,788,221	(101,155)	813,163	565,602,970
Net income for the period	-	-	67,161,804	-	-	67,161,804
Transfer to statutory reserve	-	6,716,180	(6,716,180)	-	-	-
Dividends distributed (Note 15)	-	-	(52,500,000)	-	-	(52,500,000)
Other comprehensive income	-	-	-	54,155	-	54,155
Balance as at June 30, 2018	420,000,000	31,818,921	127,733,845	(47,000)	813,163	580,318,929

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Chief Financial Officer

Board Member & Chief Executive Officer

The accompanying notes 1 through 22 form an integral part of these condensed consolidated interim financial statements.

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2018

	June 30, 2018 (Unaudited) SR	June 30, 2017 (Unaudited) SR
<u>Cash flows from operating activities:</u>		
Net profit for the period	67,161,804	56,362,291
<i>Adjustments for:</i>		
Depreciation of property and equipment	17,348,036	20,031,717
Amortization of intangible assets	2,925,768	1,900,513
Loss from disposal of property and equipment	165,325	64,056
Property and equipment written off	441,434	-
Deferred revenue on sale and leaseback	(68,298)	(68,298)
Deferred revenue from additional services program	2,786,283	5,284,054
Finance cost	5,796,255	252,567
Impairment recognized on installment sales receivable, net	3,660,323	3,033,261
Impairment (reversed) recognized on trade and other receivables, net	(253,096)	12,770
Impairment recognized against inventories	9,185,860	4,244,781
Inventories written off	858,492	-
Zakat expense	3,108,262	1,090,377
End of service benefits	5,271,158	6,696,209
Deferred tax asset	-	240,167
Operating lease liability	2,792,781	1,162,592
	121,180,387	100,307,057
<u>Changes in:</u>		
Trade and other receivables	(25,786,040)	(10,444,238)
Installment sales receivables	(100,054,068)	(41,873,224)
Inventories	147,234,433	(140,140,478)
Trade and other payables	11,440,223	161,717,614
<i>Cash from operations</i>	154,014,935	69,566,731
End of service indemnity paid	(4,256,621)	(3,629,890)
Finance cost paid	(5,796,255)	(252,567)
Zakat paid	(5,451,533)	(2,919,604)
Net cash from operating activities	138,510,526	62,764,670
<u>Cash flows from investing activities</u>		
Additions to property and equipment	(19,836,915)	(21,996,803)
Additions to intangible assets	(264,384)	(3,514,086)
Proceeds from disposal of property and equipment	290,319	15,650
Net cash used in investing activities	(19,810,980)	(25,495,239)
<u>Cash flows from financing activities:</u>		
Drawdown of Murabaha loan	365,000,000	50,000,000
Repayment of Murabaha loan	(425,000,000)	(50,000,000)
Dividend payment	(52,500,000)	-
Net cash used in financing activities	(112,500,000)	-
Net change in cash and cash equivalents	6,199,546	37,269,431
Effects of foreign exchange translation on cash and cash equivalents	54,155	20,399
Cash and cash equivalent at the beginning of the period	77,160,609	100,197,958
Cash and cash equivalents at end of the period	83,414,310	137,487,788

Supplemental cash flow information (Note 18)

The condensed consolidated interim financial statements were approved and authorized for issue by the board of directors, on behalf of the shareholders and were signed on its behalf on July 26, 2018.

Chief Financial Officer

Board Member & Chief Executive Officer

The accompanying notes 1 through 22 form an integral part of these condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

United Electronics Company (the "Company") is a Saudi joint stock Company initially registered in Riyadh under commercial registration number 1010175357 dated 19 Muharram 1423H (corresponding to April 1, 2002). In 2004, the Company's registered office was transferred from Riyadh to Al Khobar and, accordingly, the commercial Registration number was changed to 2051029841 dated 10 Jumada II, 1425H (corresponding to July 27, 2004). The shares of the company were listed on the Saudi Stock Exchange "Tadawul" on December 24, 2011.

The Board of Directors in their meeting held on February 20, 2017 proposed to increase the share capital by SR 60 million by transferring of SR 55 million and SR 5 million from statutory reserve and retained earnings respectively. On March 23, 2017 the Company obtained the approval from the Capital Market Authority (CMA) to increase its share capital. The shareholders approved capital increase of SR 60 million in the Extraordinary General Assembly held on May 14, 2017 whereby the bylaws of the Company were amended to reflect the increase in the share capital from SR 360 Million to SR 420 Million.

On June 7, 2018, the board recommended to increase the capital by SR 80 million through transfer from retained earnings and statutory reserve. The increase is subject to the approval of Extraordinary general assembly and the respective regulatory authorities.

The address of the Company's head office is as follows:

- United Electronics Company – P.O. Box 76688 Al Khobar 31952, Kingdom of Saudi Arabia.

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

1.1 Structure of the group

The condensed consolidated interim financial statements include the financial statements of the company and following subsidiaries:

<u>Name of consolidated subsidiaries</u>	<u>Effective ownership</u>
1- United Electronics Company Extra S.P.C., a Co. registered in Bahrain	100%
2- United Electronics Company Extra L.L.C., a Co. registered in Oman	100%
3- United Company for Maintenance Services, a Co. registered in Kingdom of Saudi Arabia	100%

The three wholly owned subsidiaries of the Company, for which the assets, liabilities and result of operations of these subsidiaries have been included in the accompanying condensed consolidated interim financial statements.

- 1- United Electronics Company-Extra S.P.C., is registered in Bahrain on 15 Dhul-Qa'da 1432H (corresponding to October 13, 2011). The principal activities of this subsidiary are importing, exporting and trading of electrical and electronics devices and their spare parts, computers and accessories, selling video and audio media materials, importing and exporting computer software and hardware, importing and exporting electronic games, providing maintenance for electric devices in addition to management and development of personal properties.
- 2- United Electronics Company-Extra L.L.C., is registered in Oman on 15 Jumada I 1433H (corresponding to April 7, 2012), the principal activities of this subsidiary is retail trading of computer, non-customized software, household appliances (radio, television, refrigerators, crockery etc.), toys, games, satellites, and phones.
- 3- United Computers Maintenance and Electronics Company Limited, is Saudi limited liability company incorporated on 10 Rajab 1431H (corresponding to September 22, 2010). The principal activities of this subsidiary are maintenance and repair and providing warranty for electronics, digital and electrical devices, home appliances and computers and wholesale trading of spare parts in electrical and digital devices, photocopy and fax machines, telephones, cell phones, video and electric games, digital pocket assistants, printers and computer-related devices.

The Company and its subsidiaries are together referred as "the Group"

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (Continued)
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

1.1 Structure of the group (Continued)

- 4- As at June 30, 2018, The Group had a total of 43 branches (June 30, 2017: 42 branches) out of which 40 operational branches are in the Kingdom of Saudi Arabia (June 30, 2017: 39 branches).

These condensed consolidated interim financial statements are presented in Saudi Riyals, which is the Group's functional and presentation currency. Figures have been rounded off to the nearest Riyal.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The condensed consolidated interim financial statements for the six months period ended 30 June 2018 have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants (SOCPA). The accompanying condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and hence should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2017. The Group has adopted IFRS 9 "Financial Instruments" from 1 January 2018 and accordingly, the accounting policies for this new standard are disclosed in the Note 4.

2.2 Preparation of the condensed consolidated interim financial statements

The Condensed consolidated interim financial statements have been prepared on the historical cost convention except for the defined benefit obligation which is recognized at the present value of future obligation using the projected unit credit method.

The principal accounting policies applied in the preparation of condensed consolidated interim financial statements are consistent with those of the previous financial year and the respective corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

The preparation of financial statements in conformity with IFRS required management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts in the financial statements. These critical accounting judgements and key sources of estimations were the same as those described in the last annual financial statements, except for new significant judgements and key sources of estimation related to the application of IFRS 9 which are disclosed in note 4.4.

3. BASIS OF CONSOLIDATION

The condensed consolidated interim financial statements incorporate the financial statements of the Company and its subsidiaries detailed in note 1. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (Continued)
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

3. BASIS OF CONSOLIDATION (Continued)

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Condensed consolidated interim statement of profit or loss and each component of other comprehensive income are attributed to the owners of the Company. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4. SIGNIFICANT ACCOUNTING POLICES

4.1 Standards issued and applied by the Group

The group has early adopted IFRS 15 – Revenue from contracts with customer effective January 1, 2017. The application of IFRS 15 was made under the modified retrospective approach as permitted by the standards. The modified retrospective application requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as of the adoption date. The application of this standard resulted in an adjustment to the opening retained earnings as at January 1, 2017, the date by which the management has adopted the standard, by SR 71,242,730 on account of changes in revenue recognition on additional service program (extended warranty).

IFRS 9 became applicable for the current reporting period and the Company had accordingly adjusted its accounting policies as a result of adopting IFRS 9. The impact of the adoption of this new standard and the new accounting policies are disclosed in note 4 and note 5. The other standards did not have any impact on the Group's accounting policies.

4.2 New standards, amendments and revised IFRS in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Description	Effective for annual periods beginning on or after
IFRS 16	Leases	January 1, 2019
IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
IAS 28	Long-term Interests in Associates and Joint Ventures	January 1, 2019
IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
IFRS 9	Amendments to IFRS 9 - Prepayment features with negative compensation & modification of financial liabilities	January 1, 2019

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (Continued)
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

4. SIGNIFICANT ACCOUNTING POLICES (Continued)

4.2 New standards, amendments and revised IFRS in issue but not yet effective (Continued)

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of the Group in the period of initial application.

IFRS 16 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2019. The application of IFRS 16 is effective January 1, 2019 and may have a significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of its leases. However, it is not practicable at this stage to provide a reasonable estimate of effects of the application of IFRS 16 until the Group performs a detailed review.

4.3 Changes in accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements as at 31 December 2017, except for the policies explained below that are related to the IFRS became effective on January 1, 2018. The Group has adopted IFRS 9 "financial instruments" effective January 1, 2018. This standard set out the requirements for the recognition and measurement of financial assets and financial liabilities. The key changes to the Company's accounting policies resulting from the adoption of IFRS 9 are set as follows:

Classification and measurement of financial assets and liabilities

The standard eliminates the existing IAS 39 categories of held-to-maturity, loan and receivables and available-for-sale. The classification of financial assets under IFRS 9 is generally based on the business model in which the financial asset is managed together with its relevant contractual cash flow characteristics. IFRS 9 largely retains the existing requirements in IAS 39 for classification and measurement of financial liabilities.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied under modified retrospective approach.

4.3.1 Classification of financial assets

On initial recognition, a financial asset is classified and measured at Amortized Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL). However, the Group as of the reporting date only holds financial assets measured at amortized cost. These assets are subsequently measured at fair value net of loss on impairment.

Financial Asset at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Business model assessment

The Company assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Company's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (Continued)
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

4. SIGNIFICANT ACCOUNTING POLICES (Continued)

4.3 Changes in accounting policies (Continued)

4.3.1 Classification of financial assets (Continued)

- How managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading, if any, and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and profit

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

4.3.2 Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Interest Rate (EIR).

Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

4.3.3 Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its installment sale receivables carried at amortized cost.

The Group assess impairment "based on three stages model" categorization as follows:

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Changes in accounting policies (Continued)

4.3.3 Impairment (Continued)

▪ **Stage 1 (DPD 0 - 30)**

Includes installment sale receivables that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-months ECL are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

▪ **Stage 2 (DPD 31 - 90)**

Includes installment sale receivables that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these asset, lifetime ECL are recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of installment receivables. Expected credit losses are the weighted average credit losses with the PD as the weight.

▪ **Stage 3 (DPD 90 +)**

Include financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

Significant increase in credit risk (SICR):

IFRS9 requires management, when determining whether the credit risk on a financial instrument has increased significantly, to consider reasonable and supportable information available in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial statement.

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are calculated by cumulative effect of Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- "Default", The Group considers a financial asset to be in default when: (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse; or (ii) the borrower is past due more than 30 days on any material credit obligation to the Group.
- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (Continued)
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Changes in accounting policies (Continued)

4.3.3 Impairment (Continued)

The ECL allowance is affected by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in Probability of Default PDs, Exposure at Default (EADs) and Loss Given Default (LGDs) in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The Group has identified and documented key drivers of credit risk and credit losses and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at June 30, 2018 included the following key indicators.

- GDP growth
- Inflation rate

Write off

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

For trade and other receivables, which are considered as low risk by Group with an average credit period of 30 days, the Group uses the simplified approach whereby the expected credit losses are based on the credit loss expected over the lives of these assets. The Group has prepared a provision matrix based on its previous experience adjusted to account for receivables future outlook and the respective economic conditions.

4.4 Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group’s accounting policies, the directors of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the critical judgement and key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Installment sales receivables

The measurement of the expected credit loss allowance for installment sales receivable measured at amortized cost, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (Continued)
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

5. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARD

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below:

i) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Impairment allowance under IAS 39	Re-measurement	Impairment allowance under IFRS 9
	SR	SR	SR
Trade and other receivables	1,720,417	-	1,720,417
Installment sales receivables	16,571,657	479,953	17,051,610
	<u>18,292,074</u>	<u>479,953</u>	<u>18,772,027</u>

ii) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
Financial assets				
Cash and cash equivalents	Amortized cost	Amortized cost	77,160,609	77,160,609
Trade and other receivables	Amortized cost	Amortized cost	59,137,104	59,137,104
Installment sales receivables	Amortized cost	Amortized cost	152,331,713	151,851,760
			<u>288,629,426</u>	<u>288,149,473</u>
Financial liabilities				
Trade and other payables	Amortized cost	Amortized cost	694,669,308	694,669,308
Murabaha Loan	Amortized cost	Amortized cost	200,000,000	200,000,000
			<u>894,669,308</u>	<u>894,669,308</u>

iii) Impact on retained earnings

	Retained Earnings
Closing balance under IAS 39 (31 December 2017)	120,268,174
Recognition of expected credit losses under IFRS 9	(479,953)
Opening balance under IFRS 9 (1 January 2018)	<u>119,788,221</u>

6. INSTALLMENT SALES RECEIVABLE

Details of installment sales receivables are as follows:

	June 30, 2018 SR	December 31, 2017 SR
Installment sales receivable	268,878,154	168,903,370
Less: allowance for impairment	<u>(20,632,649)</u>	<u>(16,571,657)</u>
Net installment sales receivable	248,245,505	152,331,713
Less: non-current portion included in non-current assets	<u>(60,833,233)</u>	<u>(30,789,790)</u>
Installment sales receivable, net - current portion	<u>187,412,272</u>	<u>121,541,923</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (Continued)
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

6. INSTALLMENT SALES RECEIVABLE (Continued)

The average credit installment granted is SR 10,000 at pre-determined rate.

As at June 30, 2018, stage wise installment sales receivable balances and the respective ECL are as follows:

	Stage 1	Stage 2	Stage 3	Total	December 31, 2017
Installment sales receivables	227,008,670	18,502,908	23,366,576	268,878,154	168,903,370
Allowance for impairment	(3,069,267)	(2,436,747)	(15,126,635)	(20,632,649)	(16,571,657)
	223,939,403	16,066,161	8,239,941	248,245,505	152,331,713

During the period, there has been no transfer between stage 1, stage 2 and stage 3.

Movement in the allowance for impairment

	June 30, 2018 SR	December 31, 2017 SR
Opening balance	16,571,657	10,530,741
Impact of adoption of IFRS 9	479,953	-
Impairment for the period / year	3,660,323	6,191,070
Utilized allowance	(79,284)	(150,154)
Closing balance	20,632,649	16,571,657

7. CASH AND CASH EQUIVALENT

	June 30, 2018 SR	December 31, 2017 SR
Cash at banks	63,581,501	60,523,713
Cash on hand	19,832,809	16,636,896
	83,414,310	77,160,609

8. STATUTORY RESERVE

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Group has established a statutory reserve by the appropriation of 10% of net income. General Assembly may cease such appropriation when reserve equaled 30% of the share capital.

9. DEFERRED REVENUE FROM SALES AND LEASE BACK

The Group entered into a contract with a third part whereby it sold and leased back the land and buildings on which the Group's Dammam branch is situated for a total amount of SR 69,646,242. The lease period is eighteen years commencing on July 1, 2015 and ending on June 30, 2033. The annual rent is paid in advance. This lease is accounted for as an operating lease. The Group has deferred the difference between the fair value of the asset leased-back and the related sales proceeds over the leaseback term at a monthly amount of SR 11,383.

The summary of the current and non-current portion of the deferred portions is as follows:

	June 30, 2018 SR	December 31, 2017 SR
Current portion	136,596	136,596
Non-current portion	1,912,477	1,980,775
	2,049,073	2,117,371

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (Continued)
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

10. BANK FACILITIES

The Group has bank facilities from local banks for letter of credit, letters of guarantee and Islamic Murabaha financing. These facilities are subject to Islamic Shariah principles. These facilities carry finance charges at market rates and are repayable within two months to three months. These are secured against promissory notes.

11. SEGMENTAL REPORTING

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

There are no intra segment transactions except those eliminated under consolidation adjustments. The details of the results pertaining to Kingdom of Saudi Arabia and subsidiaries results outside the Kingdom with their respective assets and liabilities for the period ended June 30, 2018 and 2017 are as follows:

For three months period ended June 30, 2018 (Unaudited)

	Inside the Kingdom of Saudi Arabia	Outside the Kingdom of Saudi Arabia	Consolidation adjustments	Total
Revenue, net	939,212,184	76,473,554	(326,633)	1,015,359,105
Cost of revenue	(764,481,909)	(66,084,182)	326,633	(830,239,458)
Gross profit	174,730,275	10,389,372	-	185,119,647
Net profit / (loss)	45,605,408	2,151,594	(2,167,103)	45,589,899

For six months period ended June 30, 2018 (Unaudited)

	Inside the Kingdom of Saudi Arabia	Outside the Kingdom of Saudi Arabia	Consolidation adjustments	Total
Revenue, net	1,746,792,353	133,812,362	(625,399)	1,879,979,316
Cost of revenue	(1,425,969,810)	(116,558,896)	625,399	(1,541,903,307)
Gross profit	320,822,543	17,253,466	-	338,076,009
Net profit / (loss)	67,183,999	808,786	(830,981)	67,161,804

Financial position as at June 30, 2018 (Unaudited)

	Inside the Kingdom of Saudi Arabia	Outside the Kingdom of Saudi Arabia	Consolidation adjustments	Total
Current assets	1,088,266,895	38,959,251	(41,811,891)	1,085,414,255
Non-current assets	459,924,854	57,198,964	16,781,032	533,904,850
Total Assets	1,548,191,749	96,158,215	(25,030,859)	1,619,319,105
Current liabilities	837,173,658	102,844,722	(41,811,891)	898,206,489
Non-current liabilities	130,237,020	10,556,667	-	140,793,687
Total Liabilities	967,410,678	113,401,389	(41,811,891)	1,039,000,176

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (Continued)
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

11. SEGMENTAL REPORTING (Continued)

For three months period ended June 30, 2017 (Unaudited)

	Inside the Kingdom of Saudi Arabia	Outside the Kingdom of Saudi Arabia	Consolidation adjustments	Total
Revenue, net	955,499,227	59,147,895	(741,878)	1,013,905,244
Cost of revenue	(791,287,829)	(51,068,021)	741,878	(841,613,972)
Gross profit	164,211,398	8,079,874	-	172,291,272
Net profit / (loss)	43,396,963	(1,268,711)	1,240,992	43,369,244

For six months period ended June 30, 2017 (Unaudited)

	Inside the Kingdom of Saudi Arabia	Outside the Kingdom of Saudi Arabia	Consolidation adjustments	Total
Revenue, net	1,710,233,906	109,832,913	(1,490,569)	1,818,576,250
Cost of revenue	(1,418,576,164)	(94,797,715)	1,490,569	(1,511,883,310)
Gross profit	291,657,742	15,035,198	-	306,692,940
Net profit / (loss)	56,414,214	(2,659,789)	2,607,866	56,362,291

Financial position as at December 31, 2017 (Audited)

	Inside the Kingdom of Saudi Arabia	Outside the Kingdom of Saudi Arabia	Consolidation adjustments	Total
Current assets	1,146,735,508	37,208,002	(50,952,822)	1,132,990,688
Non-current assets	444,244,083	57,361,453	17,599,124	519,204,660
Total Assets	1,590,979,591	94,569,455	(33,353,698)	1,652,195,348
Current liabilities	896,320,002	102,828,144	(50,952,822)	948,195,324
Non-current liabilities	128,069,660	9,847,441	-	137,917,101
Total Liabilities	1,024,389,662	112,675,585	(50,952,822)	1,086,112,425

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (Continued)
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

12. RELATED PARTIES' TRANSACTIONS AND BALANCES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below as terms and conditions of such transactions are approved by the Company's management, Board of Directors and General Assembly.

During the period, the Group entered into the following transactions with related parties that are not members of the Group:

Nature of transaction	Transaction Amount		Balance at	
	June 30, 2018	June 30, 2017	June 30, 2018	December 31, 2017
	SR	SR	SR	SR
Sales to				
Retal Urban Development Company	(42,878)	-	3,998	-
Al Fozan Holding Company	(37,568)	(377,718)	36,250	-
Purchases from				
United Homeware Company	12,251,754	-	6,088,811	2,839,186
Digital Electronics Solutions Development Company and its subsidiaries	-	266,257,448	-	-
Al Yassra Trading Company	260,803	660,455	926,501	1,598,178
Rental income from				
United Homeware Company	(3,342,420)	(2,467,293)	22,050	-
Fixed assets purchases from				
Madar Building Materials Co.	42,525	-	(1,107,499)	-
Rent expense from				
Madar Building Materials Co.	275,000	275,000	-	-
Abdullatif and Mohamed Al Fozan Co.	735,500	903,500	495,500	-
Management fee				
United Homeware Company	(303,389)	(140,417)	-	-
Others				
Madar Building Materials Co.	-	154,000	-	-

The amounts are on commercial substance and will be settled in cash. Balance due to related parties are included under trade and other payable.

During the period ended June 30, the Group had the following significant transactions with its related parties.

Entity	Relationship
Al Fozan Holding Company	Shareholder
United Homeware Company	Affiliate of a shareholder
Abdullatif and Mohamed Al Fozan Co.	Affiliate of a shareholder
Digital Electronics Solutions Development Company and its subsidiaries	Affiliate of a shareholder
Retal Urban Development Company	Affiliate of a board member
Madar Building Materials Co. (Previously Al Fozan Building Materials)	Affiliate of a shareholder
Al Yassra Trading Co.	Affiliate of a board member

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (Continued)
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

12. RELATED PARTIES' TRANSACTIONS AND BALANCES (Continued)

Key management compensation:

	June 30, 2018	June 30, 2017
	SR	SR
Short term benefit	12,231,078	5,016,531
Amount payable under retention program	1,292,576	1,051,142
BOD and related committees remuneration	2,397,691	1,861,409

13. EARNING PER SHARE

Basic and diluted earnings per share are based on net profit for the period attributable to shareholders of the company and a weightage average number of shares in issue of 42 million.

14. FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities comprise trade and other payables and loans. The Group's principal financial assets comprise cash and cash equivalents, trade and other receivables and installment sale receivables. The main financial risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of these risks which are summarized below:

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign currency exchange rates may affect the Group's income. The Group was exposed to market risk, in the form of interest rate risk and foreign currency risk as described below, during the period under review. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Foreign currency risk management

Foreign currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates. The Group's major financial assets and financial liabilities are denominated in Saudi Riyal, Omani riyal(OR), Bahraini Dinar (BD), US Dollars (USD), and Euro (Euro). Saudi riyals are pegged to the US Dollar, Bahraini Dinar and Omani Riyals and consequently balances in those currencies are not considered to represent a currency risk. Management monitors the fluctuations in Euro currency exchange rates with Saudi Riyals and manages its effect on the financial statements accordingly. Management monitors fluctuations in other foreign exchange rates and manages their effect on the condensed consolidated interim financial statements accordingly. The Group did not have any significant foreign currency denominated monetary assets or liabilities at the reporting date for which it was exposed to foreign currency fluctuations. Consequently, no foreign currency sensitivity analysis has been presented. The group is exposed to foreign currency risk as follows:

		June 30, 2018	December 31, 2017
	Currency	SR	SR
Cash and cash equivalent	USD	110,389	421,003
	EUR	202,723	482,428
Trade and other payables	USD	95,493,502	15,952,773
	EUO	810,865	-
	AED	420,768	-
Trade and other receivables	CAD	64,745	-
	USD	2,161,169	-

Interest rate and liquidity risk management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has interest bearing loans at June 30, 2018 and 2017. Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (Continued)
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

14. FINANCIAL RISK MANAGEMENT (continued)

Interest rate and liquidity risk management (Continued)

Liquidity risk

The Group maintains sufficient cash. Management review cash flow forecasts on a regular basis to determine whether the Group has sufficient cash reserves to meet future working capital requirements and to take advantage of business opportunities. The average creditor payment period is 63 days (2017: 53 days).

Contractual maturity analysis for financial liabilities

The following table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows:

	<u>Interest rate</u>	<u>Within 1 year</u> SR	<u>1-5 years</u> SR	<u>Total</u> SR
Trade and other payables	Interest free	703,375,027	-	703,375,027
Murabaha finance	3.13 % - 3.62 %	140,000,000	-	140,000,000
Finance lease liability	Interest free	123,150	-	123,150

Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its short term cash investments, and trade and installment sales receivables. Short term cash investments are placed with banks and institutions with sound credit ratings.

The maximum exposure to credit risk at the reporting date was:

<u>Description</u>	<u>June 30,</u> <u>2018</u> SR	<u>December 31,</u> <u>2017</u> SR
Cash and cash equivalents	83,414,310	77,160,609
Accounts receivables and installment sales receivable*	358,120,045	211,468,817

*For sales installment receivables have been measured based on Expected Credit Loss (ECL) method. The class wise categorization of installment sales receivable ECL are included in note 6.

The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks. With respect to credit risk arising from the financial assets of the Group, including receivables from employees and bank balances, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these assets in the condensed consolidated interim statement of financial position.

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from the previous period/year. The capital structure of the Group consists of equity and debt comprising share capital, the statutory reserve, retained earnings, the foreign currency translation reserve and loans. The Group is not subject to any externally imposed capital requirements.

15. DIVIDENDS DISTRIBUTION

The Board of Directors in their meeting held on February 21, 2018 resolved to distribute SR 52.5 million cash dividends to the shareholders of the Company for the second half of 2017 which were included under trade and other payables during the first quarter of year 2018. Dividends were paid in full during the three-month period ended June 30, 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (Continued)
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2018

16. CONTINGENCIES AND CAPITAL COMMITMENTS

	June 30, 2018 SR	December 31, 2017 SR
Letters of credit	444,405,887	379,629,739
Letters of guarantee	26,613,477	26,091,198
Commitments for the acquisition of property and equipment	4,531,578	2,613,956
Commitments for the acquisition of intangible assets	15,348,753	914,344

17. SIGNIFICANT EVENT

During the period ended June 30, 2018, one of the showrooms located in Jeddah caught fire that partially burned down the building, equipment and inventory laying down in the showroom. The total carrying value of property, equipment and inventory was SR 25.99 million, and the total of SR 1.29 million which represents the deductible percentage of insurance policy which was adjusted against profit and loss during the period. The Company has recorded a claim receivable against the insurance company under the terms of the insurance policy that covers insurance on the property and against the business interruption for such accidents, subject to submission upon receiving the loss adjustor report.

18. SUPPLEMENTAL CASHFLOW INFORMATION

Significant non-cash transactions are as follows,

	June 30, 2018 SR	June 30, 2017 SR
Impact of early adoption of IFRS 15 on deferred revenue from additional services program	-	(71,242,730)
Insurance claim receivables for inventories	16,311,055	-
Insurance claim receivables for property and equipment	8,387,245	-
Property and equipment written off	2,734,504	-
Impact of adoption of IFRS 9	(479,953)	-

19. ZAKAT STATUS

The Company received on January 8, 2018, the final assessment for years 2006 to 2010 from the General Authority of Zakat and Tax ("GAZT") that claimed an additional zakat and tax liability of SR 24 million. The Company has filed an objection to the above-mentioned assessment and obtained a revised assessment of SR 322,278 which was settled during the period. Assessment for years 2011 to 2017 still under review by the General Authority of Zakat and Tax ("GAZT"). The Company obtained the zakat certificate for the year ended December 31, 2017.

20. SUBSEQUENT EVENT

The Board of Directors in their meeting held on July 8, 2018 resolved to distribute cash dividends of SR 0.75 per share to the shareholders of the Company for the first half of 2018 with a total amount of SR 31.50 million.

21. COMPARATIVE FIGURES

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

22. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved by the board of directors and authorized for issue on July 26, 2018 corresponding to 13 Dhu Al-Qaida 1439H.