

**SAUDI COMPANY FOR HARDWARE  
(SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S LIMITED REVIEW REPORT  
FOR THE THREE MONTHS AND NINE MONTHS PERIOD  
ENDED SEPTEMBER 30, 2018**

**SAUDI COMPANY FOR HARDWARE  
(SAUDI JOINT STOCK COMPANY)**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S LIMITED REVIEW REPORT  
FOR THE THREE MONTHS AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018**

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**Deloitte and Touche & Co.**  
Chartered Accountants  
Head office - Riyadh  
License #323/11/96  
Date 10/3/1419  
www.deloitte.com

**INDEPENDENT AUDITOR'S LIMITED REVIEW REPORT  
ON INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

To the Shareholders  
Saudi Company for Hardware  
(Saudi Joint Stock Company)  
Riyadh, Kingdom of Saudi Arabia

**Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Company for Hardware, a Saudi Joint Stock Company and its subsidiary ("the Group") as of September 30, 2018 and the related interim condensed consolidated statement of profit or loss and other comprehensive income for the three months and nine months period then ended and consolidated statement of changes in equity and consolidated statement of cash flows for the nine months period then ended, and notes comprising a summary of significant accounting policy and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated 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 financial information 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 that are 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 interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting" that is endorsed in the Kingdom of Saudi Arabia.

**Other matter**

The financial statements of the Company for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on 15 Rajab 1439H, corresponding to April 1, 2018.

Deloitte and Touche & Co.  
Chartered Accountants

Ehsan A. Makhdom  
License No. 358  
16 Safar 1440  
October 25, 2018



**SAUDI COMPANY FOR HARDWARE**  
(SAUDI JOINT STOCK COMPANY)

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

|  | <b>From July 1 to September 30</b> |                    | <b>From January 1 to September 30</b> |                    |
|--|------------------------------------|--------------------|---------------------------------------|--------------------|
|  | <b>2018</b>                        | <b>2017</b>        | <b>2018</b>                           | <b>2017</b>        |
|  | <b>SR</b>                          | <b>SR</b>          | <b>SR</b>                             | <b>SR</b>          |
|  | <b>(unaudited)</b>                 | <b>(unaudited)</b> | <b>(unaudited)</b>                    | <b>(unaudited)</b> |
| Revenues   | 340,168,867                        | 322,906,000        | 1,004,861,373                         | 1,026,084,948      |
| Cost of revenues   | (275,729,635)                      | (261,762,288)      | (831,673,318)                         | (826,282,953)      |
| <b>Gross profit</b>  | <b>64,439,232</b>                  | <b>61,143,712</b>  | <b>173,188,055</b>                    | <b>199,801,995</b> |
| Selling and marketing expenses   | (7,180,770)                        | (5,284,693)        | (15,766,870)                          | (16,623,193)       |
| General and administration expenses  | (29,461,629)                       | (28,612,205)       | (87,929,384)                          | (79,023,124)       |
| <b>Operating profit</b>  | <b>27,796,833</b>                  | <b>27,246,814</b>  | <b>69,491,801</b>                     | <b>104,155,678</b> |
| Other income, net  | 1,170,903                          | 272,387            | 2,307,369                             | 1,669,346          |
| Finance cost   | (1,679,896)                        | (1,831,443)        | (4,382,179)                           | (4,548,045)        |
| <b>Profit before Zakat</b>   | <b>27,287,840</b>                  | <b>25,687,758</b>  | <b>67,416,991</b>                     | <b>101,276,979</b> |
| Zakat  | (2,859,999)                        | (2,900,875)        | (8,016,392)                           | (7,369,667)        |
| <b>NET PROFIT FOR THE PERIOD</b>   | <b>24,427,841</b>                  | <b>22,786,883</b>  | <b>59,400,599</b>                     | <b>93,907,312</b>  |
| <b>Other comprehensive income</b>  |                                    |                    |                                       |                    |
| <i>Items that will not be reclassified subsequently to profit or loss</i>                        |                                    |                    |                                       |                    |
| Net changes in fair value of equity investments at fair value through other comprehensive income | -                                  | -                  | -                                     | -                  |
| <b>Total comprehensive income for the period</b>   | <b>24,427,841</b>                  | <b>22,786,883</b>  | <b>59,400,599</b>                     | <b>93,907,312</b>  |
| <b>Earnings per share (Saudi Riyals) (note 15)</b>   |                                    |                    |                                       |                    |
| Basic and diluted earnings per share attributable to the equity holders of the Company           | 1.02                               | 0.95               | 2.48                                  | 3.91               |
| Weighted average number of shares  | 24,000,000                         | 24,000,000         | 24,000,000                            | 24,000,000         |



Chief Financial Officer



Chief Executive Officer



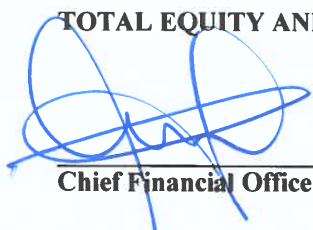
Chairman of Board of Directors

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

**SAUDI COMPANY FOR HARDWARE**  
(SAUDI JOINT STOCK COMPANY)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF SEPTEMBER 30, 2018**


|  | Notes | September 30,<br>2018<br>SR<br>(unaudited) | December 31,<br>2017<br>SR<br>(audited) |
|--|-------|--|---|
| <b>ASSETS</b>                          |       |  |   |
| <b>Non-current assets</b>              |       |  |   |
| Property and equipment                 | 4     | 247,024,403                                | 244,083,692                             |
| Intangible assets                      | 5     | 40,802,040                                 | 43,435,487                              |
| Equity investment at FVTOCI            |       | 9,662,153                                  | 9,662,153                               |
| <b>Total non-current assets</b>        |       | <b>297,488,596</b>                         | <b>297,181,332</b>                      |
| <b>Current assets</b>                  |       |  |   |
| Inventories                            | 6     | 628,865,804                                | 600,922,066                             |
| Accounts receivable                    | 7     | 19,194,385                                 | 21,050,760                              |
| Prepayments and other receivables      | 8     | 69,616,377                                 | 57,109,257                              |
| Cash and cash equivalents              |       | 17,670,588                                 | 27,320,630                              |
| <b>Total current assets</b>            |       | <b>735,347,154</b>                         | <b>706,402,713</b>                      |
| <b>TOTAL ASSETS</b>                    |       | <b>1,032,835,750</b>                       | <b>1,003,584,045</b>                    |
| <b>EQUITY AND LIABILITIES</b>          |       |  |   |
| <b>Equity</b>                          |       |  |   |
| Share capital                          | 1     | 240,000,000                                | 240,000,000                             |
| Statutory reserve                      | 11    | 63,641,499                                 | 57,701,439                              |
| Retained earnings                      |       | 291,307,895                                | 300,396,702                             |
| Fair value reserve                     |       | 1,401,700                                  | 1,401,700                               |
| <b>Total equity</b>                    |       | <b>596,351,094</b>                         | <b>599,499,841</b>                      |
| <b>Non-current liabilities</b>         |       |  |   |
| Long term debts                        | 9     | 66,207,589                                 | 82,875,000                              |
| Retirement benefit obligation          |       | 40,385,588                                 | 38,865,590                              |
| <b>Total non-current liabilities</b>   |       | <b>106,593,177</b>                         | <b>121,740,590</b>                      |
| <b>Current liabilities</b>             |       |  |   |
| Accounts payable                       |       | 186,810,196                                | 127,846,452                             |
| Accrued expenses and other liabilities |       | 77,570,227                                 | 93,046,635                              |
| Due to banks                           | 9     | 36,845,922                                 | 34,026,405                              |
| Long term debts – current portion      | 9     | 19,651,786                                 | 15,787,778                              |
| Dividends payable                      | 19    | 91,345                                     | 94,017                                  |
| Accrued zakat                          | 10    | 8,922,003                                  | 11,542,327                              |
| <b>Total current liabilities</b>       |       | <b>329,891,479</b>                         | <b>282,343,614</b>                      |
| <b>Total liabilities</b>               |       | <b>436,484,656</b>                         | <b>404,084,204</b>                      |
| <b>TOTAL EQUITY AND LIABILITIES</b>    |       | <b>1,032,835,750</b>                       | <b>1,003,584,045</b>                    |



Chief Financial Officer



Chief Executive Officer



Chairman of Board of Directors

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

**SAUDI COMPANY FOR HARDWARE  
(SAUDI JOINT STOCK COMPANY)**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018**

| Note   | Share<br>capital<br>SR | Statutory<br>reserve<br>SR | Retained<br>earnings<br>SR | Fair value<br>reserve<br>SR | Total<br>SR  |
|--|------------------------|----------------------------|----------------------------|-----------------------------|--------------|
| Balance at January 1, 2017 (audited)               | 240,000,000            | 44,211,519                 | 220,987,424                | 1,401,700                   | 506,600,643  |
| <b>Comprehensive income:</b>                       |                        |                            |                            |                             |              |
| Net profit for the period                          | -                      | -                          | 93,907,312                 | -                           | 93,907,312   |
| Other comprehensive income for the period          | -                      | -                          | -                          | -                           | -            |
| Total comprehensive income for the period          | -                      | -                          | 93,907,312                 | -                           | 93,907,312   |
| Transfer to statutory reserve                      | -                      | 9,390,731                  | (9,390,731)                | -                           | -            |
| Dividend distribution                              | -                      | -                          | (42,000,000)               | -                           | (42,000,000) |
| Balance at September 30, 2017 ( unaudited)         | 240,000,000            | 53,602,250                 | 263,504,005                | 1,401,700                   | 558,507,955  |
| January 1, 2018 (audited) (as previously reported) | 240,000,000            | 57,701,439                 | 300,396,702                | 1,401,700                   | 599,499,841  |
| Adjustment in application of IFRS 15               | -                      | -                          | (863,210)                  | -                           | (863,210)    |
| Adjustment in application of IFRS 9                | -                      | -                          | (1,686,136)                | -                           | (1,686,136)  |
| Balance at January 1, 2018 (adjusted)              | 240,000,000            | 57,701,439                 | 297,847,356                | 1,401,700                   | 596,950,495  |
| <b>Comprehensive income:</b>                       |                        |                            |                            |                             |              |
| Net profit for the period                          | -                      | -                          | 59,400,599                 | -                           | 59,400,599   |
| Other comprehensive income for the period          | -                      | -                          | -                          | -                           | -            |
| Total comprehensive income for the period          | -                      | -                          | 59,400,599                 | -                           | 59,400,599   |
| Transfer to statutory reserve                      | -                      | 5,940,060                  | (5,940,060)                | -                           | -            |
| Dividend distribution                              | -                      | -                          | (60,000,000)               | -                           | (60,000,000) |
| Balance at September 30, 2018 ( unaudited)         | 240,000,000            | 63,641,499                 | 291,307,895                | 1,401,700                   | 596,351,094  |

**Chief Financial Officer**

**Chief Executive Officer**


**Chairman of Board of Directors**

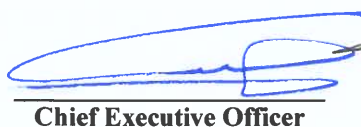
The accompanying notes form an integral part of these interim condensed consolidated financial statements

**SAUDI COMPANY FOR HARDWARE**  
(SAUDI JOINT STOCK COMPANY)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018**

|   | 2018<br>SR<br>(unaudited) | 2017<br>SR<br>(unaudited) |
|---|---------------------------|---------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                  |                           |                           |
| Net profit for the period                                     | 59,400,599                | 93,907,312                |
| Adjustments for:  |                           |                           |
| Zakat   | 8,016,392                 | 7,369,667                 |
| Finance cost  | 4,382,179                 | 4,548,045                 |
| Depreciation and amortization                                 | 31,620,028                | 26,805,953                |
| Loss on disposal of property and equipment                    | 215,768                   | 302,408                   |
| Provision for slow moving items and inventory shortages       | (2,428,687)               | 3,446,562                 |
| Write-off inventory   | 15,964,828                | 12,022,910                |
| Provision for doubtful debts                                  | 341,493                   | 163,125                   |
| Provision for retirement benefits obligation                  | 4,365,383                 | 5,719,819                 |
| Movement in working capital:                                  |                           |                           |
| Inventories   | (41,479,879)              | (146,768,209)             |
| Accounts receivable   | 1,235,774                 | 3,606,561                 |
| Prepayments and other receivables                             | (12,451,993)              | (6,304,416)               |
| Accounts payable  | 58,963,744                | 39,256,180                |
| Accrued expenses and other current liabilities                | (17,873,210)              | (9,480,598)               |
| <b>Cash generated from operations</b>                         | <b>110,272,419</b>        | <b>34,595,319</b>         |
| Zakat paid  | (10,565,279)              | (9,992,078)               |
| Finance cost paid   | (4,382,179)               | (4,548,045)               |
| Retirement benefits obligation paid                           | (2,845,385)               | (1,402,788)               |
| <b>Net cash generated from operating activities</b>           | <b>92,479,576</b>         | <b>18,652,408</b>         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |                           |                           |
| Purchase for property and equipment                           | (30,847,874)              | (65,059,312)              |
| Proceeds from disposal of property and equipment              | 9,500                     | 211,050                   |
| Purchase for intangible assets                                | (1,304,686)               | -                         |
| <b>Net cash used in investing activities</b>                  | <b>(32,143,060)</b>       | <b>(64,848,262)</b>       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                   |                           |                           |
| Change in due to banks, net                                   | 2,819,517                 | 63,510,518                |
| Proceeds of long term borrowings                              | -                         | 54,000,000                |
| Repayments of long term borrowings                            | (12,803,403)              | (15,709,646)              |
| Dividends paid  | (60,002,672)              | (35,971,701)              |
| <b>Net cash (used in) generated from financing activities</b> | <b>(69,986,558)</b>       | <b>65,829,171</b>         |
| <b>Net change in cash and cash equivalents</b>                | <b>(9,650,042)</b>        | <b>19,633,317</b>         |
| Cash and cash equivalents at beginning of period              | 27,320,630                | 54,535,375                |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>     | <b>17,670,588</b>         | <b>74,168,692</b>         |

  
Chief Financial Officer

  
Chief Executive Officer

  
Chairman of Board of Directors

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



**SAUDI COMPANY FOR HARDWARE  
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018**

**1. CORPORATE INFORMATION**

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

The accompanying condensed consolidated interim financial statements include the financial statements of the Company and its 28 stores located in various cities in the Kingdom of Saudi Arabia and following subsidiary:

| Subsidiary name                  | Country      | Effective ownership percentage | Activities                   |
|----------------------------------|--------------|--------------------------------|------------------------------|
| Medscan Terminal Company Limited | Saudi Arabia | 100%                           | Transportation and logistics |

The Company and its subsidiary are referred to hereinafter as ("the Group").

**2. APPLICATION OF REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)**

**2.1 New and revised IFRSs in issue but not yet effective**

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

**IFRS16 Leases**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.



**SAUDI COMPANY FOR HARDWARE  
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(CONTINUED)**

**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018**

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**2. APPLICATION OF REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS  
(IFRSs) (CONTINUED)**

**2.1 New and revised IFRSs in issue but not yet effective (continued)**

**IFRS16 Leases (continued)**

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

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 SR 682 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.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. The directors of the Company are still assessing the potential impact of application of IFRS 16 to the Company's interim condensed consolidated financial statements. The directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

**2.2. New standards and interpretations adopted during the period**

The entity has adopted IFRS 9 and IFRS 15 as on January 1, 2018 and this is the third set of interim condensed consolidated financial information where IFRS 9 and IFRS 15 have been applied. Changes to significant accounting policies are described in note 3, "change in accounting policies".

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Statement of compliance**

These interim condensed consolidated financial statements for the nine months period ended September 30, 2018 have been prepared in accordance International Financial Reporting Standard 34 interim Financial Reporting as promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") as endorsed and notified by Saudi Organization for Certified Public Accountants (SOCPA) and the requirements of the laws and regulations in Saudi Arabia.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statement as at December 31, 2017.

Except for the adoption of new standards effective as of January 1, 2018 (as described below), the accounting policies adopted and applied in these interim condensed consolidated financial statements are the same as those applied in the last annual financial statements as at and for the year ended December 31, 2017. The changes in accounting policies are also expected to be reflected in the annual financial statements as at and for the year ending December 31, 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**SAUDI COMPANY FOR HARDWARE  
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018**

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

**Basis of preparation**

The interim condensed consolidated financial statements have been prepared under historical cost basis except for certain financial instruments at FVTOCI that are measured at fair values and by using the actuarial basis for end of service benefits, on the accrual basis of accounting.

**Principles of consolidation**

The interim condensed consolidated financial statements incorporate the financial information of the Company and its subsidiary. 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.

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.

When necessary, adjustments are made to the 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.

**Functional and presentation currency**

These condensed consolidated financial statements are presented in Saudi Riyal, which is the Group's functional and presentation currency.

**Zakat**

The Group is subject to the regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia. The provision is charged to the statement of profit or loss and other comprehensive income. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalized.

**SAUDI COMPANY FOR HARDWARE  
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018**

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

**Cost of revenue**

Costs of revenue principally comprise the cost of goods ready for sale, which include direct labor, landed costs of merchandise sold, showroom lease rent, staff costs and depreciation.

**Significant accounting judgements, estimates and assumptions**

The preparation of the condensed consolidated interim 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.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 9 and IFRS 15, which are described as below:

**Changes in accounting policies**

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" from January 1, 2018.

The effect of applying these standards is mainly attributed to the following:

- Presentation of revenue net of sales return, customer rewards points, contract assets (if any), contract cost and contract liabilities.
- An increase in impairment losses recognized on financial assets.

**Effect of Applying IFRS 15 "Revenue from Contracts with Customers"**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The new standard establishes a five-step model to account for revenue arising from contracts with customers. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations of IFRS and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The Group recognizes revenue, which is an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer, when customer obtains controls of the goods or services at a point in time i.e. on delivery and acknowledgement of goods and services.

The details of new significant accounting policies and the nature of changes to previous accounting policies in relation to the Group's sale of goods are set out below:

**Products**

Hardware's devices, tools and other goods.

**Nature, timing of satisfaction of performance obligations, significant payment terms**

Customers obtain control of products when the goods are delivered to and have been accepted by the customers. Invoices are generated and revenue is recognized at that point in time.

Credit invoices are usually payable within 30 – 120 days. Invoices are generated and recognised as revenue net of applicable discounts which relate to the items sold. Customer loyalty points are offered to customers and therefore there is deferred revenue (contract liability) to be recognized for the items sold.

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

**Changes in accounting policies (continued)**

**Nature, timing of satisfaction of performance obligations, significant payment terms (continued)**

For contracts that permit the customer to return an item, under IFRS 15 revenue is recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Therefore, the amount of revenue recognized is adjusted for expected returns, which re estimated based on the historical data. Returned goods liability is recorded in "accrued expenses and other liabilities" for cash sales and credit sales.

**Nature of change in accounting policy**

Under IAS 18, revenue for contracts with customers was also recognized when the goods were delivered to and were accepted by the customers and a reasonable estimate of sales return could be made. Estimated sales returns, if significant, were netted off against revenue, with a corresponding liability in "accrued expenses and other liabilities" for cash sales and credit sales.

**a) Contract assets**

Under IFRS 15, if an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. There was no restatement due to this change; except for reclassification between receivables to contract assets.

**b) Contract liabilities**

The following contract liabilities are recognised in relation to the application of IFRS 15

- Advance payment received from customers
- Deferred revenue (rewards points)

**c) Accounting for refunds**

The Group's customers have a right to return the product within a given period (7 days), The Group is obliged to refund the purchase price.

Under IFRS 15, a refund liability for the expected refunds to customers is recognised as adjustment to revenue in trade and other payables. At the same time, the Group has a right to recover the product from the customer where the customer exercises his right of return and recognises an asset and a corresponding adjustment to cost of sales. As at January 1, 2018 the Group recognized a refund liability amounted to SR 2.47 million and recognized a corresponding asset also from these expected returns amounted to SR 1.60 million. The asset is measured by reference to the former carrying amount of the product. The costs to recover the products are not material because the customer usually returns the product in a saleable condition at the store.

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

**Changes in accounting policies (continued)**

**Nature of change in accounting policy (continued)**

**d) Accounting for customer loyalty program**

In previous reporting periods, the consideration received from the sale of goods was allocated to the points using spending matrix method. Under this method, customers who spend money in purchasing goods will receive loyalty points as specified in the following table:

| Level  | Customer Spending<br>(Saudi Riyals) | Percentage of<br>points added | Remarks  |
|--------|-------------------------------------|-------------------------------|--|
| First  | 1 to 1,000                          | 0%                            | No points will be added in the first level   |
| Second | 1,001 to 6,000                      | 3%                            | 3 % of purchases from Saudi Riyals 1,001 to 6,000 within one Gregorian year of the first invoice             |
| Third  | 6,001 to 12,000                     | 4%                            | 6 % of purchases from Saudi Riyals 6001 to 12,000 within one Gregorian year of the first invoice             |
| Fourth | 12,001 and Above                    | 6%                            | 6 % of purchases exceeding Saudi Riyals 12,000 within one Gregorian year Gregorian year of the first invoice |

Under IFRS 15, the total consideration must be allocated to the points and goods based on the relative standalone selling prices. Management calculated the loyalty points under the new method and determined that there is no material variance between using spending matrix method and relative stand-alone selling prices.

**e) Presentation of assets and liabilities related to contracts with customers**

The Group has also voluntarily changed the presentation of certain amounts in the statement of financial position to reflect the terminology of IFRS 15:

- **Contract assets:** Under IFRS 15; if an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. The Group has not transferred any goods to any customer before the customer pays the consideration.
- **Contract liabilities in relation to customer's advance payments** which are included in accrued expenses and other liabilities (SR 1.86 million as at September 30, 2018).
- **Contract liabilities in relation to the customer loyalty program** were previously presented as deferred revenue, see (d) above.
- **Other payables relating to refund liabilities** were previously presented in current provisions (SR 1.62 million as at September 30, 2018).

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

**Changes in accounting policies (continued)**

**Nature of change in accounting policy (continued)**

**f) Sale of goods - retail**

The Group operates a chain of retail stores selling tools, devices, and electronic equipment. Revenue from the sale of goods is recognised when a Group entity sells a product to the customer.

Payment of the transaction price is due immediately when the customer purchases any tools, devices, or electronic equipment. It is the Group's policy to sell its products to the end customer with a right of return within 7 days. Therefore, a refund liability (included in trade and other payables) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned. Accumulated experience and historical data are used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

**g) Sale of goods - customer loyalty program**

The Group operates a loyalty program where retail customers accumulate points for purchases made which entitle them to discount on future purchases. Revenue from the reward points is recognised when the points are redeemed or when they expire 12 months after the initial sale. A contract liability is recognised until the points are redeemed or expired.

**Effect of Applying IFRS 9 "Financial Instruments"**

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. The Group has adopted IFRS 9 using the cumulative effect method with the effect of initially applying this standard recognised at the date of initial application (i.e. January 1, 2018), therefore, the comparative information has not been restated. IFRS 9 is applicable to financial assets and financial liabilities and covers the classification, measurement, impairment and de-recognition of financial assets and liabilities together with a new hedge accounting model. The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

**1. Classification and measurement of financial assets and financial liabilities**

IFRS 9 eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial assets and financial liabilities.

Financial instruments are recognised when the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial instruments at initial recognition.

The Group classifies its financial assets in the following categories:

- a) Financial assets measured subsequently at fair value (either through other comprehensive income, or through profit or loss).
- b) Financial assets measured at amortized cost.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.



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

**Changes in accounting policies (continued)**

**Effect of Applying IFRS 9 "Financial Instruments"(continued)**

**2. Measurement**

**Initial measurement**

Financial assets and financial liabilities are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or disposal of financial assets and liabilities or, where appropriate, deducted from them (Except for financial assets and liabilities at fair value where transaction costs directly attributable to the acquisition of financial assets or liabilities are recognized directly in the consolidated statement of profit or loss).

**Subsequent measurement of financial assets**

**a) Financial assets measured at FVTOCI**

A debt investment is measured at FVTOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. The Group elected to present and measure unquoted shares in ACE international as financial assets at FVTOCI.

Financial assets measured at FVTOCI are re-measured to fair value at each financial reporting date. No deduction is made for transaction costs that might be incurred when the asset is disposed of in the future.

When the financial asset is derecognized, the related accumulated fair value adjustments in OCI as at the date of derecognition are reclassified from equity and recognized in the statement of profit and loss. However, there is no subsequent reclassification of fair value gains and losses to statement of profit and loss in case of equity instruments.

**b) Financial assets measured at amortized cost**

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

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

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

**Changes in accounting policies (continued)**

**Subsequent measurement of financial assets (continued)**

**b) Financial assets measured at amortized cost (continued)**

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. The financial assets measured at fair value through profit or loss are re-measured to fair value at each financial reporting date without the deduction of transaction costs that the Company or its subsidiary may incur on sale or disposal of the financial asset in future.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

**Equity investments at FVTOCI**

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at January 1, 2018 relates solely to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the class of the Group's financial assets as at January 1, 2018.

| Financial assets       | Note | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 | New carrying amount as under IFRS 9 |
|------------------------|------|--------------------------------------|---------------------------------|---------------------------------------|-------------------------------------|
| Equity investment      | A    | Available for sale                   | Equity investments at FVOCI     | 9,662,153                             | 9,662,153                           |
| Cash and bank balances |      | Loans and receivables                | Amortized cost                  | 27,320,630                            | 27,320,630                          |
| Accounts receivable    | B    | Loans and receivables                | Amortized cost                  | 21,050,760                            | 20,771,652                          |
| Other financial assets | C    | Loans and receivables                | Amortized cost                  | 7,577,360                             | 6,029,381                           |
|                        |      |                                      |                                 | <b>65,610,903</b>                     | <b>63,783,816</b>                   |

A - These equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

B - Accounts receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. An increase of SR 279,108 in the allowance for impairment over these receivables was recognised in the opening retained earnings at January 1, 2018 on transition to IFRS 9.

C - Sub - Lease receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. An increase of SR 1,547,979 in the allowance for impairment over these lease receivables was recognised in the opening retained earnings at January 1, 2018 on transition to IFRS 9.

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

**Changes in accounting policies (continued)**

**Equity investments at FVTOCI (continued)**

**1. Amortized cost**

Subsequent to initial recognition, financial liabilities are measured at amortized cost calculated under the effective interest method except for liabilities;

Measured at FVTPL;

1. That arise when a transfer of a financial asset does not qualify for derecognition or is accounted for using the continuing involvement approach;
2. That are commitments to provide a loan at a below-market interest rate and not measured at fair value though profit or loss;
3. That are financial guarantee contracts; and
4. Contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognised in the consolidated statement of profit or loss.

Gains or losses on financial liabilities that are measured at fair value and that are not part of a hedging relationship are generally recognized in profit or loss. The only exception is for gains and losses on certain financial liabilities designated as at FVTPL when the entity is required to present the effects of changes in the liability's credit risk in OCI.

**2. Liabilities at fair value through profit or loss**

Financial liabilities falling under this category include:

1. liabilities held for trading;
2. derivative liabilities not designated as hedging instruments; and
3. those designated as at FVTPL

After initial recognition, the entity measures liabilities at fair value with changes in fair value recognized in the consolidated statement of profit or loss. Gains or losses on a financial liability designated as at FVTPL are generally split and presented as follows:

1. the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that financial liability is presented in the consolidated statement of OCI; and
2. the remaining amount of change in the fair value of the financial liability is presented in the consolidated statement of profit or loss.

**3. Liabilities other than financial liabilities at FVTPL**

Financial liabilities are measured at amortized cost using the effective interest rate. The proceeds from issuing debt are adjusted over the life of the debt so that the carrying amount at maturity is the amount repayable at maturity.

Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements.

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

**Changes in accounting policies (continued)**

**Equity investments at FVTOCI (continued)**

**Impairment of financial instruments**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. IFRS 9 requires the use of the expected credit loss model whereby the Group assesses the expected credit losses associated with its assets carried at amortized cost and debt instrument carried at FV through the consolidated OCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk since initial recognition. Accordingly, the provision for impairment of financial instruments is measured by the amount of the expected credit losses over the life of the financial instrument. If credit risk has not increased significantly, 12 months ECL is used to provide for impairment provision.

For trade receivables, the Group applies a simplified approach to measure the provision for loss in an amount equal to the expected credit loss over the life of the financial instrument. Since credit risk has not increased significantly, 12 months ECL is used to provide for impairment provision.

**Derecognition of financial assets**

The financial assets are derecognized from the statement of financial position when the rights to receive cash flows from the financial assets have expired, or have been transferred and the Group has transferred substantially all risks and rewards of ownership. The difference in the carrying amount is recognized in the statement of profit and loss except for equity investment at FVOCI.

**Derecognition of financial liabilities**

The financial liabilities are de-recognized from the statement of financial position when the under-lying obligations are extinguished, discharged, lapsed, cancelled, expires or legally released.

**Offsetting of Financial instruments**

A financial asset and a financial liability is offset as a net amount in the consolidated statement of financial position when, and only when, both of the following conditions are satisfied:

1. The Group currently has a legally enforceable right to set off the recognized amounts of the asset and liability; and
2. Intention to settle on a net basis is exist, or to realize the asset and settle the liability simultaneously.

The Group has applied IFRS 9 and 15 using the cumulative effect method with the effect of initially applying those standards recognised at the date of initial application (i.e. January 1, 2018) therefore the comparative information has not been restated and continues to be reported under IAS 18, IAS 11 and IAS 39. The following tables summarize the impact of adopting IFRS 9 and 15 on the Group's consolidated statement of financial position as of January 1, 2018:

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

**Changes in accounting policies (continued)**

**Consolidated statement of financial position as of January 1, 2018:**

|  | Amounts<br>without impact<br>of IFRS 9 and<br>IFRS 15<br>SR | Adjustment /<br>reclassifications<br>IFRS 9<br>SR | Adjustment<br>IFRS 15<br>SR | Amounts<br>including the<br>impacts of<br>IFRS 9 and<br>IFRS 15<br>SR |
|--|---|---|-----------------------------|---|
| <b>ASSETS</b>                          |   |   |                             |   |
| <b>Non-current assets</b>              |   |   |                             |   |
| Property and equipment                 | 244,083,692   | -   | -                           | 244,083,692   |
| Intangible assets                      | 43,435,487  | -   | -                           | 43,435,487  |
| Available for sales investment         | 9,662,153   | (9,662,153)                                       | -                           | -   |
| Equity investments at FVTOCI           | -   | 9,662,153   | -                           | 9,662,153   |
| <b>Total non-current assets</b>        | <b>297,181,332</b>  | <b>-</b>  | <b>-</b>                    | <b>297,181,332</b>  |
| <b>Current assets</b>                  |   |   |                             |   |
| Inventories                            | 600,922,066   | -   | -                           | 600,922,066   |
| Accounts receivables                   | 21,050,760  | (279,108)   | -                           | 20,771,652  |
| Prepaid expenses and other assets      | 57,109,257  | (1,547,979)                                       | 1,603,106                   | 57,164,384  |
| Cash and bank balances                 | 27,320,630  | -   | -                           | 27,320,630  |
| <b>Total current assets</b>            | <b>706,402,713</b>  | <b>(1,827,087)</b>                                | <b>1,603,106</b>            | <b>706,178,732</b>  |
| <b>TOTAL ASSETS</b>                    | <b>1,003,584,045</b>  | <b>(1,827,087)</b>                                | <b>1,603,106</b>            | <b>1,003,360,064</b>  |
| <b>EQUITY AND LIABILITIES</b>          |   |   |                             |   |
| Share capital                          | 240,000,000   | -   | -                           | 240,000,000   |
| Statutory reserve                      | 57,701,439  | -   | -                           | 57,701,439  |
| Retained earnings                      | 300,396,702   | (1,686,136)                                       | (863,210)                   | 297,847,356   |
| Fair value reserve                     | 1,401,700   | -   | -                           | 1,401,700   |
| <b>Total equity</b>                    | <b>599,499,841</b>  | <b>(1,686,136)</b>                                | <b>(863,210)</b>            | <b>596,950,495</b>  |
| <b>Non-current liabilities</b>         |   |   |                             |   |
| Long term debts                        | 82,875,000  | -   | -                           | 82,875,000  |
| Retirement benefit obligation          | 38,865,590  | -   | -                           | 38,865,590  |
| <b>Total non-current liabilities</b>   | <b>121,740,590</b>  | <b>-</b>  | <b>-</b>                    | <b>121,740,590</b>  |
| <b>Current liabilities</b>             |   |   |                             |   |
| Accounts payable                       | 127,846,452   | -   | -                           | 127,846,452   |
| Accrued expenses and other liabilities | 93,046,635  | (140,951)   | 2,466,316                   | 95,372,000  |
| Due to banks                           | 34,026,405  | -   | -                           | 34,026,405  |
| Current portion of long term debts     | 15,787,778  | -   | -                           | 15,787,778  |
| Dividend payable                       | 94,017  | -   | -                           | 94,017  |
| Zakat                                  | 11,542,327  | -   | -                           | 11,542,327  |
| <b>Total current liabilities</b>       | <b>282,343,614</b>  | <b>(140,951)</b>                                  | <b>2,466,316</b>            | <b>284,668,979</b>  |
| <b>Total liabilities</b>               | <b>404,084,204</b>  | <b>(140,951)</b>                                  | <b>2,466,316</b>            | <b>406,409,569</b>  |
| <b>TOTAL EQUITY AND LIABILITIES</b>    | <b>1,003,584,045</b>  | <b>(1,827,087)</b>                                | <b>1,603,106</b>            | <b>1,003,360,064</b>  |

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**4. PROPERTY AND EQUIPMENT**

|  | September 30,<br>2018<br>SR<br>(unaudited) | December 31,<br>2017<br>SR<br>(audited) |
|--|--|---|
| Net book value at the beginning of the period \ year | 244,083,692                                | 193,108,126                             |
| Additions  | 30,847,874                                 | 85,175,211                              |
| Transfers  | (15,000)                                   | -                                       |
| Disposals  | (225,268)                                  | (1,176,793)                             |
| Depreciation for the period \ year                   | (27,666,895)                               | (33,022,832)                            |
| Carrying value at the end of the period \ year       | 247,024,403                                | 244,083,692                             |

**5. INTANGIBLE ASSETS**

|                                | September 30,<br>2018<br>SR<br>(unaudited) | December 31,<br>2017<br>SR<br>(audited) |
|--------------------------------|--|---|
| Goodwill                       | 22,377,889                                 | 22,377,889                              |
| Computer software and licenses | 17,098,209                                 | 19,731,656                              |
| Others                         | 1,325,942                                  | 1,325,942                               |
|                                | 40,802,040                                 | 43,435,487                              |

Movement in intangible assets is as follows:

|  | September 30,<br>2018<br>SR<br>(unaudited) | December 31,<br>2017<br>SR<br>(audited) |
|--|--|---|
| Net book value at the beginning of the period \ year | 43,435,487                                 | 43,582,119                              |
| Additions  | 1,304,686                                  | 4,873,679                               |
| Transfers  | 15,000                                     | -                                       |
| Disposals  | -  | (316)                                   |
| Amortization for the period \ year                   | (3,953,133)                                | (5,019,995)                             |
| Carrying value at the end of the period \ year       | 40,802,040                                 | 43,435,487                              |

**Impairment test for goodwill**

The Goodwill is related to the acquisition of Medscan Terminal Company. Goodwill is monitored by the Group's management at the level of only one cash-generating unit (Medscan).

The management performs goodwill impairment assessment annually and when there are indicators that the carrying value of the goodwill may be impaired. Group's management believes that any reasonably possible change in the key assumptions used for impairment assessment performed on December 31, 2017 will not cause the carrying value of the goodwill to materially exceed its recoverable amount. Accordingly, no impairment loss was recognised for the nine months period ended September 30, 2018.



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**6. INVENTORIES**

|   | September 30,<br>2018<br>SR<br>(unaudited) | December 31,<br>2017<br>SR<br>(audited) |
|---|--|---|
| Merchandise:  |  |   |
| In stores and warehouses                                      | 593,390,082                                | 577,200,293                             |
| On consignment  | 19,782,562                                 | 21,056,054                              |
| Consumables   | 6,059,658                                  | 4,229,992                               |
| Goods-in-transit  | 32,494,733                                 | 23,725,645                              |
|   | <u>651,727,035</u>                         | <u>626,211,984</u>                      |
| Less: provision for slow moving items and inventory shortages | <u>(22,861,231)</u>                        | <u>(25,289,918)</u>                     |
|   | <u>628,865,804</u>                         | <u>600,922,066</u>                      |

**7. ACCOUNTS RECEIVABLE**

|                                     | September 30,<br>2018<br>SR<br>(unaudited) | December 31,<br>2017<br>SR<br>(audited) |
|-------------------------------------|--|---|
| Trade receivable                    | 21,148,624                                 | 22,384,398                              |
| Less : allowance for doubtful debts | <u>(1,954,239)</u>                         | <u>(1,333,638)</u>                      |
|                                     | <u>19,194,385</u>                          | <u>21,050,760</u>                       |

Movement in the allowance for doubtful debts is as follows:

|   | September 30,<br>2018<br>SR<br>(unaudited) | December 31,<br>2017<br>SR<br>(audited) |
|---|--|---|
| Balance at the beginning of the period \ year | 1,333,638                                  | 1,116,138                               |
| Adjustment on application of IFRS 9           | 279,108                                    | -                                       |
| Opening balance (adjusted)                    | 1,612,746                                  | 1,116,138                               |
| Provision during the period \ year            | 341,493                                    | 217,500                                 |
| Balance at the end of the period \ year       | <u>1,954,239</u>                           | <u>1,333,638</u>                        |

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**8. PREPAYMENTS AND OTHER RECEIVABLES**

|  | September 30,<br>2018<br>SR<br>(unaudited) | December 31,<br>2017<br>SR<br>(audited) |
|--|--|---|
| Prepaid expenses                       | 50,839,835                                 | 43,034,349                              |
| Advances to employees                  | 7,862,870                                  | 6,029,381                               |
| Advances to suppliers                  | 2,430,876                                  | 2,493,419                               |
| Advance rent                           | 3,523,958                                  | -                                       |
| Others                                 | 6,506,817                                  | 5,552,108                               |
|  | <u>71,164,356</u>                          | <u>57,109,257</u>                       |
| Less : provision for other receivables | <u>(1,547,979)</u>                         | <u>-</u>                                |
|  | <u>69,616,377</u>                          | <u>57,109,257</u>                       |

Others includes an amount of sub-lease receivables amounting to SR 1.5 million (December 31, 2017: SR 1.5 million) which is fully impaired.

Movement in provision for other receivables is as follows:

|   | September 30,<br>2018<br>(unaudited) | December 31,<br>2017<br>(audited) |
|---|--------------------------------------|-----------------------------------|
| Balance at the beginning of the period \ year | -                                    | -                                 |
| Adjustment on application of IFRS 9           | 1,547,979                            | -                                 |
| Opening balance (adjusted)                    | <u>1,547,979</u>                     | <u>-</u>                          |
| Balance at the end of the period \ year       | <u>1,547,979</u>                     | <u>-</u>                          |

**9. BORROWINGS**

|  | September 30,<br>2018<br>SR<br>(unaudited) | December 31,<br>2017<br>SR<br>(audited) |
|--|--|---|
| Short term debts                       | 36,845,922                                 | 34,026,405                              |
| Long term debts                        | 85,859,375                                 | 98,662,778                              |
| Total debts                            | <u>122,705,297</u>                         | <u>132,689,183</u>                      |
| Short term debts                       | 36,845,922                                 | 34,026,405                              |
| Current portion of long term debts     | 19,651,786                                 | 15,787,778                              |
| Non-current portion of long term debts | 66,207,589                                 | 82,875,000                              |
| Total debts                            | <u>122,705,297</u>                         | <u>132,689,183</u>                      |

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**9. BORROWINGS (CONTINUED)**

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

|  | September 30,<br>2018<br>(unaudited) | December 31,<br>2017<br>(audited) |
|--|--------------------------------------|-----------------------------------|
| Later than 1 year                            | 27,366,071                           | 15,610,112                        |
| Later than 2 years but not more than 5 years | 38,841,518                           | 67,264,888                        |
|  | <b>66,207,589</b>                    | <b>82,875,000</b>                 |

The Group obtained borrowing facilities in the amount of SR 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"). 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 September 30, 2018. These facilities as of September 30, 2018 include a loan in the amount of SR 25 million for the construction of the Group's Head Office building and the land of the Head Office with the book value of SR 17.4 million was designated as a collateral against this loan. The unused portion of those facilities amounted to SR 216 million as of September 30, 2018.

**10. ZAKAT**

The Zakat is based on the interim condensed financial statements of the Group. The movement in Group's zakat provision is as follows:

|  | September 30,<br>2018<br>SR<br>(unaudited) | December 31,<br>2017<br>SR<br>(audited) |
|--|--|---|
| At beginning of the period / year                  | 11,542,327                                 | 11,082,842                              |
| Provided during the period / year                  | 8,922,003                                  | 11,542,327                              |
| Over provision for prior period / year             | (905,611)                                  | (1,106,870)                             |
| Paid during the period / year                      | (10,565,279)                               | (9,975,972)                             |
| Transfer to accrued expenses and other liabilities | (71,437)                                   | -                                       |
| Closing balance at the end of the period / year    | <b>8,922,003</b>                           | <b>11,542,327</b>                       |

The Company received the final zakat assessment up to 2006 and the assessments for the years 2007 to 2017 are under study by the GAZT. The Company started filing a consolidated zakat return for the Company and its subsidiary starting January 1, 2017. The final zakat assessment for the subsidiary is under review by the GAZT for the years 2011 to 2016.

**11. STATUTORY RESERVE**

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws, the Company has established a statutory reserve by the appropriation of 10% of total comprehensive income until the reserve equaled 50% of the share capital. Following a recent change to the Regulations for Companies, appropriations can cease when the reserve equals 30% instead of 50% of the share capital. The Company has accordingly amended its by-laws in 2017 to comply with the new regulations. This reserve is not available for dividend distribution to the shareholders of the Company.

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**12. OPERATING LEASE ARRANGEMENTS**

*The Group as lessee*

Operating lease payments represent rentals payable by the Group for certain office properties, show rooms, warehouse and employees' accommodation and land. Leases are negotiated for an average term of 1 to 7 years and rentals are fixed over the lease period.

*Payments recognized as an expense*

|  | September 30,<br>2018<br>SR<br>(unaudited) | September 30,<br>2017<br>SR<br>(unaudited) |
|--|--|--|
| Payments under operating leases recognized as an expense during the year | 65,689,834                                 | 61,147,754                                 |

Commitments for minimum lease payments under non-cancelable operating lease are as follow:

|            | September 30,<br>2018<br>SR<br>(unaudited) | December 31,<br>2017<br>SR<br>(audited) |
|------------|--|---|
| 2018       | 57,698,740                                 | 72,083,878                              |
| 2019       | 64,373,162                                 | 70,964,009                              |
| 2020       | 60,261,999                                 | 50,935,589                              |
| 2021       | 52,450,673                                 | 58,471,159                              |
| 2022       | 54,873,288                                 | 53,465,352                              |
| Thereafter | 354,964,229                                | 389,648,861                             |
|            | 644,622,091                                | 695,568,848                             |

As of September 30, 2018, the Group has future lease commitments under operating leases of SR 645 million (December 31, 2017: SR 696 million).

**13. COMMITMENTS AND CONTINGENCIES**

The Group had the following contingencies and commitments:

|                       | September 30,<br>2018<br>SR<br>(unaudited) | December 31,<br>2017<br>SR<br>(audited) |
|-----------------------|--|---|
| Letters of credit     | 52,698,476                                 | 55,229,776                              |
| Letters of guarantees | 12,200,224                                 | 1,880,224                               |

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.

**14. COMMITMENT FOR EXPENDITURE**

The capital commitments related to ongoing activities of the Group's various exhibitions is as follows:

|   | September 30,<br>2018<br>SR<br>(unaudited) | December 31,<br>2017<br>SR<br>(audited) |
|---|--|---|
| Commitments for Group's various exhibitions | 22,807,355                                 | 2,259,870                               |

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**15. EARNINGS PER SHARE (EPS)**

Basic earnings per share is calculated by dividing the total comprehensive income for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. 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 period.

The EPS calculation is given below:

|  | September 30,<br>2018<br>SR<br>(unaudited) | September 30,<br>2017<br>SR<br>(unaudited) |
|--|--|--|
| Total comprehensive income attributable to ordinary equity holders of the parent | 59,400,599                                 | 93,907,312                                 |
| Weighted average number of shares in issue during the period                     | 24,000,000                                 | 24,000,000                                 |
| Earnings per share   | 2.48                                       | 3.91                                       |

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

**16. FINANCIAL INSTRUMENTS**

Financial instruments at fair value through other comprehensive income (FVTOCI) represents investments in unquoted securities of ACE international which are measured at repurchase quotation available from the investee company at every year end. All other financial assets and liabilities of the Group are classified and measured at amortised cost.

For all financial instruments, the fair value of financial instruments does not materially differ from their carrying values.

**17. 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these interim condensed consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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**17. FAIR VALUE MEASUREMENTS (CONTINUED)**

The carrying amount of financial assets and financial liabilities approximates their fair value. The Group only presents unquoted equity investments at FVTOCI under fair valuation model.

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

|                                       | September 30,<br>2018<br>SR<br>(unaudited) | December 31,<br>2017<br>SR<br>(audited) |
|---------------------------------------|--|---|
| <b>Level 3</b>                        |  |   |
| Unquoted equity investments at FVTOCI | 9,662,153                                  | 9,662,153                               |

There were no transfers among level 1, 2, and 3 for the nine months period ended September 30, 2018 and for the year ended December 31, 2017.

**18. 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 nine months periods ended September 30, 2018 and 2017 is as follows:

| For the nine months period ended<br>September 30, 2018 (unaudited) | Sales and<br>services<br>SR | Logistic<br>services<br>SR | Total<br>SR   |
|--|-----------------------------|----------------------------|---------------|
| <b>Revenues:</b>   |                             |                            |               |
| Total segment revenues   | 997,042,490                 | 16,682,375                 | 1,013,724,865 |
| Inter-segment revenues   | -                           | (8,863,492)                | (8,863,492)   |
| Revenue from external customers                                    | 997,042,490                 | 7,818,883                  | 1,004,861,373 |
| <b>Timing of revenue recognition:</b>                              |                             |                            |               |
| At a point in time   | 995,422,710                 | 7,818,883                  | 1,003,241,593 |
| Overtime   | 1,619,780                   | -                          | 1,619,780     |
|  | 997,042,490                 | 7,818,883                  | 1,004,861,373 |
| <b>Profit from operations</b>                                      | 66,921,113                  | 2,570,688                  | 69,491,801    |
| Finance cost   | (4,382,179)                 | -                          | (4,382,179)   |
| Other income, net  | 2,307,369                   | -                          | 2,307,369     |
| <b>Profit before zakat</b>   | 64,846,303                  | 2,570,688                  | 67,416,991    |
| Zakat  | (8,016,392)                 | -                          | (8,016,392)   |
| <b>Net profit for the period</b>                                   | 56,829,911                  | 2,570,688                  | 59,400,599    |



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**18. SEGMENT INFORMATION (CONTINUED)**

| <b>Other segment information: For the nine months period ended September 30, 2018 (unaudited)</b>  |                                  |                                 |                      |
|--|----------------------------------|---------------------------------|----------------------|
|  | <b>Sales and services</b>        | <b>Logistic services</b>        | <b>Total</b>         |
| Capital expenditures   | <b>28,457,009</b>                | <b>3,695,551</b>                | <b>32,152,560</b>    |
| Depreciation and amortization  | <b>30,268,554</b>                | <b>1,351,474</b>                | <b>31,620,028</b>    |
| <b>Total segment assets:</b>   |                                  |                                 |                      |
| September 30, 2018 (unaudited)   | <b>1,017,599,110</b>             | <b>15,236,640</b>               | <b>1,032,835,750</b> |
| <b>Total segment liabilities:</b>  |                                  |                                 |                      |
| September 30, 2018 (unaudited)   | <b>431,735,522</b>               | <b>4,749,134</b>                | <b>436,484,656</b>   |
| <b>For the nine months' period ended September 30, 2017 (unaudited)</b>                            |                                  |                                 |                      |
|  | <b>Sales and services<br/>SR</b> | <b>Logistic services<br/>SR</b> | <b>Total<br/>SR</b>  |
| <b>Revenues:</b>   |                                  |                                 |                      |
| Total segment revenues   | 1,018,209,484                    | 12,542,829                      | 1,030,752,313        |
| Inter-segment revenues   | -                                | (4,667,365 )                    | (4,667,365 )         |
| Revenue from external customers  | 1,018,209,484                    | 7,875,464                       | 1,026,084,948        |
| <b>Profit from operations</b>  | <b>100,984,595</b>               | <b>3,171,083</b>                | <b>104,155,678</b>   |
| Finance cost   | (4,548,045 )                     | -                               | (4,548,045 )         |
| Other income, net  | 1,542,500                        | 126,846                         | 1,669,346            |
| <b>Profit before zakat</b>   | <b>97,979,050</b>                | <b>3,297,929</b>                | <b>101,276,979</b>   |
| Zakat  | (7,369,667 )                     | -                               | (7,369,667 )         |
| <b>Net profit for the period</b>   | <b>90,609,383</b>                | <b>3,297,929</b>                | <b>93,907,312</b>    |
| <b>Other segment information: For the nine months period ended September 30, 2017 (un audited)</b> |                                  |                                 |                      |
| Capital expenditures   | 65,059,312                       | -                               | 65,059,312           |
| Depreciation and amortization  | 25,800,200                       | 1,005,753                       | 26,805,953           |
| <b>Total segment assets:</b>   |                                  |                                 |                      |
| December 31, 2017 (audited)  | 987,574,738                      | 16,009,307                      | 1,003,584,045        |
| <b>Total segment liabilities:</b>  |                                  |                                 |                      |
| December 31, 2017 (audited)  | 400,832,141                      | 3,252,063                       | 404,084,204          |

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**19. 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 February 8, 2018 resolved to distribute cash dividends to the Company's shareholders amounting to SR 36 million at SR 1.5 per share (SR 42 million at SR 1.75 per share in July 2017). The dividend was distributed on March 21, 2018.

In accordance with extra-ordinary general assembly meeting held on May 13, 2018, the Company's shareholders resolved to delegate the authority to the Board of Directors to distribute dividends to the shareholders for the first half of the year 2018. Accordingly, the Board of Directors in its meeting held on July 23, 2018 resolved to distribute cash dividends to the Company's shareholders amounting to SR 24 million at SR 1 per share. The dividend was distributed on September 19, 2018.

**20. EVENTS AFTER THE REPORTING PERIOD**

Subsequent to period end, Company's Board of Directors in their meeting held on October 23, 2018 proposed to increase share capital of the Company from SR 240 million to SR 360 million by issuing one bonus share for every two existing shares owned by the shareholders at the closing of trading on the day of the extraordinary general meeting to be announced later. The increase in share capital will be through capitalization of retained earnings of SR 62.3 million and statutory reserve of SR 57.7 million. The proposed increase is subject to approval of Capital Market Authority and shareholders' approval in the extraordinary general assembly meeting.

**21. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**

This condensed consolidated interim financial information have been approved by the Board of Directors on October 23, 2018, corresponding to 14 Safar 1440.