SAUDI COMPANY FOR HARDWARE
(A Saudi Joint Stock Company)

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

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

pwc

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

Report on the audit of the consolidated financial statements

Our opinion

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

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
First time adoption of International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia	
For all periods up to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with generally accepted accounting standards as issued by SOCPA ("previous GAAP"). The Group prepared its first annual consolidated financial statements for the year ended December 31, 2017 in accordance with IFRS, as endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by SOCPA. In preparing the consolidated financial statements, the Group's opening statement of consolidated financial position was prepared as of January 1, 2016, which is the Group's date of transition to IFRS. We considered the transition from previous GAAP to IFRS, as endorsed in the Kingdom of Saudi Arabia, as a key audit matter due to its pervasive impact on the consolidated financial statements in terms of measurement and disclosure. Refer to Note 2 to the accompanying consolidated financial statements for the basis of preparation under first time adoption of IFRS, Note 3 for summary of significant accounting policies and Note 4 for the transition adjustments and other details in connection with transition from previous GAAP to IFRS as endorsed in the Kingdom of Saudi Arabia.	We performed the following procedures: • Obtained an understanding of the transition differences identified by the management between the previous GAAP and IFRS, as endorsed in the Kingdom of Saudi Arabia, and assessed their completeness and appropriateness; • Assessed the competence of the management personnel involved in the IFRS transition process; • Evaluated the key decisions made by the Group with respect to accounting policies, estimates and judgements in relation to the transition to IFRS, as endorsed in the Kingdom of Saudi Arabia, and assessed their appropriateness based on our understanding of the Group's business and its operations; • Tested on a sample basis the adjustments made as part of the transition process based on the differences identified; and • Evaluated the adequacy and appropriateness of disclosures made in the consolidated financial statements in relation to the transition to IFRS as endorsed in the Kingdom of Saudi Arabia.

Key audit matter

Impairment of goodwill

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

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

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

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

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

How our audit addressed the key audit matter

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

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

Other information

Management is responsible for the other information. The other information comprises the Annual Report of the Group, but does not include the consolidated financial statements and our auditor's report thereon, which is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

PricewaterhouseCoopers

By: ____________________

Bader I Benmohareb
License Number 471

April 1, 2018

SAUDI COMPANY FOR HARDWARE
(A Saudi Joint Stock Company)

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

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

Chief Financial Officer | Chief Executive Officer | Chairman of Board of Directors

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

SAUDI COMPANY FOR HARDWARE
(A Saudi Joint Stock Company)

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

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

Chief Financial Officer　　Chief Executive Officer　　Chairman of Board of Directors

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

SAUDI COMPANY FOR HARDWARE
(A Saudi Joint Stock Company)

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

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

Chief Financial Officer | Chief Executive Officer | Chairman of Board of Directors

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

SAUDI COMPANY FOR HARDWARE
(A Saudi Joint Stock Company)

Consolidated statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

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

Chief Financial Officer | Chief Executive Officer | Chairman of Board of Directors

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

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

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

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

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

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

Subsidiary name	Country	Effective ownership percentage	Activities
Medscan Terminal Company Limited	Saudi Arabia	100%	Transportation and logistic services

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

2 Significant changes in the current reporting year

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

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

2.1 Basis of preparation

i. Statement of compliance and consolidation of financial statements

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

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

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

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

ii. New standards and interpretations not yet adopted

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

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

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

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

IFRS16 Leases - IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

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

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

iii. Principles of consolidation

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

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

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

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

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

3 Summary of significant accounting policies

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

3.1 Foreign currency translation

(a) Reporting currency

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

(b) Transactions and balances

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

3.2 Significant accounting judgements, estimates and assumptions

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

Critical estimates are disclosed below:

(a) Slow-moving inventory items and shortages

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

(b) Expected decline in the value of intangible assets

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

(c) Loyalty program for customers

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

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

(d) Impairment of goodwill

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

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

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

3.3 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the chief executive officer of the Group, being the chief operating decision-maker, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete consolidated financial statements are available.

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

3.4 Fair value measurement

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

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy which is described in Note 33.

3.5 Revenue recognition

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

Sale of goods

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. The Group provides normal warranty provisions for general repairs for two years on all its products sold, in line with industry practice. A liability for potential warranty claims is recognised at the time the product is sold.

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

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

Rendering of services

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

3.6 Available for sale investment

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

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

3.7 Leases

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

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Currently, the Group does not have any finance lease arrangements.

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

3.8 Business combinations

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

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

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

The excess of the

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

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

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

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

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

3.9 Impairment of assets

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

3.10 Borrowing costs

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

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

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

3.11 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following categories:

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

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

(ii) Recognition and derecognition

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

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

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

(iii) Measurement

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

(iv) Impairment

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

Assets carried at amortized cost

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

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

Assets classified as available-for-sale

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

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

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

(vi) Income recognition

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

3.12 Cash and cash equivalents

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

3.13 Accounts receivable

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the profit and loss and reported under "general and administrative expenses".

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

3.14 Inventories

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

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

3.15 Property and equipment

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

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

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

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

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

3.16 Intangible assets

(i) Goodwill

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

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

(ii) Licenses

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

3.17 Accounts payable and accruals

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

3.18 Provisions

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

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

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