

ABDULLAH AL-OTHAIM MARKETS COMPANY

(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2016 TOGETHER
WITH INDEPENDENT AUDITORS' REPORT**

ABDULLAH AL-OTHAIM MARKETS COMPANY

(A Saudi Joint Stock Company)

Consolidated Financial Statements for the Year Ended 31 December 2016

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INDEPENDENT AUDITORS' REPORT

To: The Shareholders
Abdullah Al-Othaim Markets Company
Riyadh – Kingdom of Saudi Arabia

Scope of Audit:

We have audited the consolidated statement of financial position of **Abdullah Al-Othaim Markets Company** "A Saudi Joint Stock Company" as at 31 December 2016, and the consolidated statements of income, cash flows and changes in equity for the year then ended, and the accompanying other explanatory notes from note (1) to note (31) which form an integral part of the consolidated financial statements.

These consolidated financial statements are the responsibility of the Company's management and have been prepared in accordance with the provisions of the Companies' Regulation and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

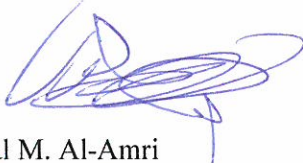
We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion:

In our opinion, the accompanying consolidated financial statements taken as a whole;

- present fairly, in all material respects, the consolidated financial position of **Abdullah Al-Othaim Markets Company** as of December 31, 2016 and the consolidated results of its operations, cash flows and its changes in equity for the year then ended in conformity with accounting principles generally accepted in the Kingdom of Saudi Arabia.
- comply with the requirements of the Companies' Regulation and the Company's Articles of Association with respect to the preparation and presentation of consolidated financial statements.

For Dr. Mohamed Al-Amri & Co.,



Jamal M. Al-Amri
Certified Public Accountant
Registration No. 331



Jumada Al-Thani 17, 1438 (H)
March 16, 2017 (G)

ABDULLAH AL-OTHAIM MARKETS COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Saudi Riyals)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
As at 31 December			
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents	(4)	313,915,486	329,426,125
Short-term Investments	(5)	61,649,646	-
Inventories	(6)	680,512,374	603,995,906
Trade receivables, net		36,423,363	28,194,855
Prepayments and other receivables	(7)	176,040,645	239,154,945
Total current assets		1,268,541,514	1,200,771,831
Non-current assets			
Investments in associates	(8)	172,533,520	169,644,532
Available-for- sale investments	(9)	14,991,495	16,645,447
Properties and equipment, net	(10)	1,338,430,712	1,226,961,725
Investment properties, net	(11)	674,374,417	467,994,270
Biological assets, net	(12)	-	796,900
Intangible assets, net	(13)	9,511,008	11,359,330
Total non-current assets		2,209,841,152	1,893,402,204
TOTAL ASSETS		3,478,382,666	3,094,174,035
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
<u>LIABILITIES</u>			
Current liabilities			
Trade payables		1,099,665,073	927,325,129
Short term loans and Murabahas	(14-a)	-	20,061,386
Current portion of long term loans and Murabahas	(14-b)	187,213,333	192,213,333
Notes Payable		29,109,363	31,240,285
Accruals and other payables	(16)	355,304,575	271,338,511
Zakat & tax provisions	(17)	14,557,095	9,798,497
Total current liabilities		1,685,849,439	1,451,977,141
Non-current liabilities			
Long term loans and Murabahas	(14-b)	412,286,670	399,500,000
Provision for employees' end-of-service benefits		82,677,996	69,944,667
Total non-current liabilities		494,964,666	469,444,667
TOTAL LIABILITIES		2,180,814,105	1,921,421,808
<u>SHAREHOLDERS' EQUITY</u>			
Share capital		450,000,000	450,000,000
Statutory reserve	(18)	67,568,635	44,565,425
Other reserves	(19)	-	717,505
Retained earnings		727,242,713	610,213,817
Unrealized (loss) from available for sale investments	(9)	(2,514,591)	(860,639)
Company's share in translation differences in associates	(8)	1,281,853	-
Differences from translation of foreign subsidiary financial statements		(4,002,834)	-
Total shareholders' equity		1,239,575,776	1,104,636,108
Non – controlling interests		57,992,785	68,116,119
Total equity		1,297,568,561	1,172,752,227
TOTAL LIABILITIES AND EQUITY		3,478,382,666	3,094,174,035

The accompanying notes from (1) to (31) form an integral part of these consolidated financial statements.

ABDULLAH AL-OTHAIM MARKETS COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENTS OF INCOME
(Saudi Riyals)

	<i>Note</i>	For the year ended 31, December	
		<u>2016</u>	<u>2015</u>
Sales		7,171,729,236	6,035,801,745
Cost of sales		<u>(5,900,068,018)</u>	<u>(5,037,330,186)</u>
Gross income		1,271,661,218	998,471,559
Rental income, net	(20)	68,955,069	62,216,356
Selling and marketing expenses	(21)	(980,111,054)	(765,122,696)
General and administrative expenses	(22)	(125,266,648)	(85,791,179)
Income from main operations		235,238,585	209,774,040
Company's share in profits of associates	(8)	25,365,154	26,884,450
Dividends received from available for sale investments		345,928	367,955
Earnings from short-term investments		649,646	-
Impairment loss in assets	(26)	(20,026,315)	-
Financing expenses		(17,233,432)	(9,048,026)
Other income, net		1,685,062	6,496,708
Income before zakat, tax and non-controlling interests		226,024,628	234,475,127
Zakat and tax	(17)	(8,365,856)	(5,322,531)
Net income before non-controlling interests		217,658,772	229,152,596
Non-controlling interests share		12,373,334	1,722,766
Net income for the year		<u>230,032,106</u>	<u>230,875,362</u>
Earnings (losses) per share from:			
Income from main operations		<u>5.23</u>	<u>4.66</u>
Income from other operations		<u>(0.12)</u>	<u>0.47</u>
Net income		<u>5.11</u>	<u>5.13</u>
Weighted-average number of shares		<u>45,000,000</u>	<u>45,000,000</u>

The accompanying notes from (1) to (31) form an integral part of these consolidated financial statements.

ABDULLAH AL-OTHAIM MARKETS COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Saudi Riyals)

	For the year ended 31 December	
	<u>2016</u>	<u>2015</u>
<u>OPERATING ACTIVITIES</u>		
Net income before zakat, tax and non - controlling interests	226,024,628	234,475,127
<i>Adjustments to reconcile net income before zakat, tax and non-controlling interests to net cash generated from operating activities</i>		
Depreciation & Amortization	149,247,277	129,093,926
Provision for stock shortage	2,166,753	(240,259)
Provision for doubtful debts	(1,047,474)	-
Loss (Gain) on sale of properties and equipment	1,755,740	(7,179)
Loss on disposal of biological assets	294,292	139,577
Share in profits of associates	(25,365,154)	(26,884,450)
Dividends from available for sale investment	(345,928)	(367,955)
Provision for employees' end-of-service benefits, net	12,733,329	9,387,507
<i>Changes in working capital:</i>		
Inventories	(78,077,041)	(94,099,677)
Trade Receivables, Prepayments and other receivables	52,300,694	93,012
Trade payables	172,339,944	(86,560,421)
Accruals and other payables	83,691,802	54,635,349
Zakat and taxes paid	(3,332,996)	(4,109,267)
Net cash from operating activities	<u>592,385,866</u>	<u>215,555,290</u>
<u>INVESTING ACTIVITIES</u>		
Additions to properties and equipment	(475,179,857)	(402,197,581)
Additions to investment properties	(3,529,832)	(132,206)
Addition to intangible assets	(102,075)	-
Short-term investments	(61,649,646)	-
Additions to investments in associates	-	(26,124,563)
Additions to biological assets	(979,686)	(2,544)
Proceeds from sale of biological assets	1,151,822	-
Proceeds from sale of properties and equipment	2,127,170	3,810,101
Dividends received from associates	28,673,086	27,625,000
Dividends received from available for sale investments	345,928	367,955
Net cash used in investing activities	<u>(509,143,090)</u>	<u>(396,653,838)</u>
<u>FINANCING ACTIVITIES</u>		
Proceeds from Loans and Murabahas	1,117,406,711	2,243,500,205
Repayments of Loans and Murabahas	(1,129,681,427)	(1,874,724,996)
Notes Payable	(2,130,922)	3,553,448
Dividends paid	(90,000,000)	(78,750,000)
Non-controlling interest	250,000	33,050,857
Net cash used in financing activities	<u>(104,155,638)</u>	<u>326,629,514</u>
Net change in cash and cash equivalent	(20,912,862)	145,530,966
Effects of changes in foreign exchange rates for translation of foreign subsidiaries financial statements	5,402,223	-
Cash and cash equivalent at the beginning of the period	329,426,125	183,489,491
Cash resulted from consolidation of associates	-	405,668
Cash and cash equivalent at the ending of the year	<u>313,915,486</u>	<u>329,426,125</u>
<u>Non-cash transactions</u>		
Unrealized (loss) from available for sale investments	(1,653,952)	(811,627)
Transfers from properties and equipment to investment properties	229,723,408	-
Other reserves	(717,505)	717,505
Fixed assets- translation differences	9,405,057	-
Company's share in translation differences of associates	1,281,853	-
Debit balances transferred to additions in associates	5,632,572	-

The accompanying notes from (1) to (31) form an integral part of these consolidated financial statements

ABDULLAH AL-OTHAIM MARKETS COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Saudi Riyals)

For the year ended December 31, 2016	Share Capital	Statutory reserve	Retained earnings	Unrealized (loss) gain on available for sale investments	Other reserves	Differences from translation of financial statements of foreign subsidiaries/in associates	Total shareholders' equity	Non- controlling interests	Total equity
Balance at 1 January 2016	450,000,000	44,565,425	610,213,817	(860,639)	717,505	--	1,104,636,108	68,116,119	1,172,752,227
Net income for the year	--	--	230,032,106	--	--	--	230,032,106	(12,373,334)	217,658,772
Transfer to statutory reserve	--	23,003,210	(23,003,210)	--	--	--	--	--	--
Unrealized (losses) in available for sale investments	--	--	--	(1,653,952)	--	--	(1,653,952)	--	(1,653,952)
Other reserves – (19)	--	--	--	--	(717,505)	--	(717,505)	--	(717,505)
Dividends	--	--	(90,000,000)	--	--	--	(90,000,000)	--	(90,000,000)
Differences from translation of financial statements of foreign subsidiaries	--	--	--	--	--	(4,002,834)	(4,002,834)	--	(4,002,834)
Company's share in translation differences in associates	--	--	--	--	--	1,281,853	1,281,853	--	1,281,853
Non-controlling interests (change)	--	--	--	--	--	--	--	2,250,000	2,250,000
Balance at 31 December 2016	450,000,000	67,568,635	727,242,713	(2,514,591)	--	(2,720,981)	1,239,575,776	57,992,785	1,297,568,561
For the year ended December 31, 2015									
Balance at 1 January 2015	450,000,000	21,477,889	481,175,991	(49,012)	--	--	952,604,868	1,645,043	954,249,911
Net income for the year	--	--	230,875,362	--	--	--	230,875,362	(1,722,766)	229,152,596
Transfer to statutory reserve	--	23,087,536	(23,087,536)	--	--	--	--	--	--
Unrealized (losses) in available for sale investments	--	--	--	(811,627)	--	--	(811,627)	--	(811,627)
Other reserves – (19)	--	--	--	--	717,505	--	717,505	--	717,505
Dividends	--	--	(78,750,000)	--	--	--	(78,750,000)	--	(78,750,000)
Non-controlling interests (change)	--	--	--	--	--	--	--	68,193,842	68,193,842
Balance at 31 December 2015	450,000,000	44,565,425	610,213,817	(860,639)	717,505	--	1,104,636,108	68,116,119	1,172,752,227

The accompanying notes from (1) to (31) form an integral part of these consolidated financial statements

ABDULLAH AL-OTHAIM MARKETS COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts are presented in Saudi riyals unless otherwise indicated)

1. ORGANIZATION AND ACTIVITIES

Abdullah Al-Othaim Markets Company (the “Company”) is a Saudi joint stock company registered in Riyadh on Rajab 7, 1400(H) (May 21, 1980(G)) under Commercial Register Number 1010031185. The Company transferred from a limited liability company into a joint stock company according to the ministerial decree No. 227/G on Ramadan 3, 1428(H) (corresponding to September 15, 2007(G)).

The main activities of the company are trade of food, fish, meat, agricultural crops, livestock and household items. The company is also engaged in operating and maintaining storage and freezing warehouses, operating commercial complexes, acquiring land to develop buildings for investment purposes including rent or sale.

The share capital of the Company amounts to SR 450 million divided into 45 million shares, each of which has a value of SR 10.

The fiscal year for the Company and its subsidiaries starts on January 1st and ends December 31st each calendar year.

These consolidated financial statements consist of the financial statements of the Company and its subsidiaries, together referred to as the “Group”.

<u>Name of the company</u>	Effective ownership at 31 December	
	<u>2016</u>	<u>2015</u>
Haley Holding Company	100%	100%
Universal Marketing Centre Company	100%	100%
Seven Services Company	100%	100%
Bayt Alwatan Company (consolidated)	100%	100%
Marafeq Al Tashgheel Company	100%	100%
Al-Othaim Markets— Egypt	100%	100%
Rawafid Al-khairat Operation and Maintenance Company	100%	--
Thamarat Al Qassim Company	90%	90%
Riyadh Foods Industries Company (consolidated)	55%	55%
Mu’een Recruitment Company	68%	--
Rafif Tours and Travels Company	75%	--

Haley Holding Company

A limited liability company operating under the commercial register number 1010314228 which was issued in Riyadh city on 09 Ramadan 1432 H corresponding to 09 August 2011G. The activities of the company include managing the operations of its own subsidiaries, sharing in management of and providing support to the operations of other investees. Such support includes acquiring real estate and other assets necessary for the operations of these investees. Furthermore, the activities of the company include providing loans and guarantees to its subsidiaries, possessing industrial copy rights of patents, trademarks, franchising and other intangible rights and deploying such rights including through lease to subsidiaries.

Universal Marketing Centre Company

A limited liability company operating under the commercial register number 1010314201 which was issued in Riyadh city on 09 Ramadan 1432 H corresponding to 09 August 2011. The activities of the company include managing the operations of its own subsidiaries, sharing in management of and providing support to the operations of other investees. Such support includes acquiring real estate and other assets necessary for the operations of these investees. Furthermore, the activities of the company include possessing industrial copy rights of patents, trademarks, franchising and other intangible rights and deploying such rights including through lease to subsidiaries and others.

ABDULLAH AL-OTHAIM MARKETS COMPANY
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Seven Services Company

A limited liability company operating under the commercial register number 1010320848 which was issued in Riyadh city on 02 Muharram 1433 H corresponding to 27 November 2011 G. The activities of the company include importing and exporting, wholesale and retail of vegetables, fruits, grains, flour, rice, dates, sugar, meat, fish, milk, dairy products, ghee, millet, olives, pasta, fizzy drinks, mineral water and packing and packaging services.

Bayt Al Watan Company

A limited liability company operating under the commercial register number 1010320847 which was issued in Riyadh city on 02 Muharram 1433H corresponding to 27 November 2011 G. The main activities of the company include importing and exporting, retail and wholesale of fruits and vegetables, fish and dairy products, ghee, olive, halva, pasta and fizzy beverages and importing and exporting for others, and maintenance of training and entertainment facilities and sport facilities and general contracting for building (building, maintenance, demolition and restoration works) and electronic and electrical works.

Marafeq Al Tashgheel Company

A limited liability company operating under the commercial register number 1010321917 which was issued in Riyadh city on 15 Muharram 1433H corresponding to 10 December 2011 G. The activities of the company include general contracting for buildings (construction, demolition, restoration and maintenance) and main roads works, streets, bridges, excavation and reinforcement work and carpentry.

Al Othaim Markets Egypt

A Joint stock company operating under the commercial register number 55010 which was issued in Arab Republic of Egypt on 20 Dhu Al-Hijjah 1432 H corresponding to 16 November 2011. The activities of the company include wholesale and retail trading and general trading.

Rawafid Al-khairat Operation and Maintenance Company

A limited liability company operating under the commercial register number 1010228732 which was issued in Riyadh on 2 Safar 1428H corresponding 19 November 2007. The activities of the company include general contracting and the operation of shopping malls.

Thamarat Al Qassim Company

A limited liability company operating under the commercial register number 1010378315 which was issued in Riyadh city on 30 Rajab 1434 H corresponding to 9 June 2013. The activities of the company include the cultivation of vegetables, fodder, raising livestock and poultry, services for import, export and marketing for others, purchase of lands for constructing buildings on them for purposes of investment through either sale or lease, and exploitation of real estate and lands for the benefit of the company.

Riyadh Food Industries Company

A closed joint stock company operating under the commercial register number 1010011849 issued in Riyadh city on 17 Rabi Al Akhir 1397 H corresponding to 5 April 1977. The activities of the company include purchasing of lands for the constructing of industrial buildings and plants and investment of such properties for the benefit of the company, and the operation, maintenance and development of plants for the others, and marketing of food and consumer products, and all that is needed to create shops and markets or participate in wholesale and retail food and consumer goods. The financial statements are consolidated beginning from the interim consolidated financial statements for the three-month period and the year ended December 31, 2015.

ABDULLAH AL-OTHAIM MARKETS COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts are presented in Saudi riyals unless otherwise indicated)

Mu'een Recruitment Company

A closed joint stock company operating under the commercial register number 1010135202 which was issued in Riyadh city on 6 Ramadan 1436 H corresponding to 23 June 2015. The activities of the company include providing house labor services for both public and private sectors based on the registration number of Ministry of Labor number HMM 24 dated 23 Dhul Hijja 1436 H corresponding to 16 October 2015. The financial statements are consolidated beginning from the consolidated financial statements for the year ended December 31, 2015 G.

Rafif Tours & Travel Company

A limited liability company operating under the commercial register number 1010399303 which was issued in Riyadh on 20 Safar 1435H corresponding 24 December 2013. Rafif is a travel and tourism agency operating under the Saudi Commission for Tourism And National Heritage number (F/688/27) issued on 21 Jumad Al-thani 1437H.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with the requirements of accounting standards issued by the Saudi Organization of Certified Public Accountants (SOCPA).

Basis of measurement

The consolidated financial statements have been prepared in accordance with (a) the historical cost basis of accounting, except for the investments in associates and available for sale investments which are carried in the books as described in detail below, and (b) using the accrual basis of accounting and in conformity with the accounting standards generally accepted in Kingdom of Saudi Arabia.

Accounting estimates

The consolidated financial statements are prepared in conformity with generally accepted accounting standards require the use of estimates and assumptions which have an effect on the values of recorded assets and liabilities and disclosures of information about contingent assets and liabilities at the date of the consolidated financial statements, and on the amounts of revenues and expenses recorded during the period of the consolidated financial statements. Although the estimates are based on the best information and events available to management at the date of issuance of consolidated financial statements, the ultimate actual results, however, may differ insignificantly from those estimates.

Estimates and assumptions underlying the consolidated financial statements are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. Significant areas of estimation, uncertainty and critical judgments in applying accounting policies that may have a significant effect on the amounts recognized in the consolidated financial statements are as follows:

- *Useful lives and residual values of properties and equipment*
- *Estimation of long term contracts costs*
- *Allowance for doubtful debts*
- *Provisions and accruals*
- *Provision for slow moving inventory items*

ABDULLAH AL-OTHAIM MARKETS COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts are presented in Saudi riyals unless otherwise indicated)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries as disclosed in note (1). Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

All significant transactions and balances between the Company and its subsidiaries and among the subsidiaries are eliminated when preparing the consolidated financial statements. Unrealized gains or losses resulting from inter-company transactions among the companies of the group are also eliminated upon consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of these consolidated financial have been applied consistently to all of the periods presented in the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand; cash in banks, bank Murabahas and other short-term highly liquid investments with original maturities of three month or less from purchase date.

Accounts receivable

Accounts receivable are stated net of an allowance for doubtful debts, if any. An allowance for doubtful debts is provided for when there is an objective evidence of the inability of the Company to collect all amounts under the terms with the debtors. The provision is presented in the consolidated statement of income under general and administrative expenses. When the debts are deemed uncollectible, they are written-off against the allowance for doubtful debts.

Revenue recognition

- Revenue from the sale of goods is recognized when the goods are delivered to the customers and there is no further obligation towards them. New stores opening fees are recognized based on agreements with the suppliers at the time a store is opened and are presented in the statement of income as a deduction from cost of sales.
- Income from rebates and other suppliers' incentives are accrued for in accordance with the agreements with the suppliers. For presentation purposes, cost of sales is stated net of these rebates and incentives.
- Rental income is recognized on an accrual basis using the straight-line method over the term of a lease contract.

Expenses

Selling and marketing expenses are principally comprised of costs incurred in the marketing and sale of the Company's products. All other expenses are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically part of cost of revenues as required under the generally accepted accounting principles in the Kingdom of Saudi Arabia. Allocations between general and administrative expenses and cost of revenues, when required, are made on a consistent basis.

ABDULLAH AL-OTHAIM MARKETS COMPANY
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(All amounts are presented in Saudi riyals unless otherwise indicated)

Investments in associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Holding an interest between 20 and 50 percent of the capital of an investee, which also entitles the entity the ability to vote is considered an important indicator of the company's ability to exert significant influence over the investee. Associates are accounted for using the equity method and are recognized initially at cost. The financial statements include the Company's share in the income and expenses and equity movement of the equity accounted investees from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an associate, the carrying amount will be reduced to nil. After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. The Company's share of profit or loss of the investee is credited or charged to the consolidated statement of income.

Available for sale investments

Investments over which the company has no control or significant influence over and are not acquired for trading purposes are classified as available for sale (AFS) investments. AFS investments are recognized initially at cost, which represents the fair value of the amounts paid to acquire the investments plus all costs and other charges that are direct and incremental to the acquisition transaction. Subsequently, AFS investments are re-measured at fair value and any changes other than permanent decline in the fair value under cost are recognized in equity.

The fair value is determined based on the market value, if the investments are traded in an active financial market. In the absence of an active financial market, the cost is considered as a proxy of fair value. Permanent declines in the value of AFS investments (if any) are recognized in the consolidated statement of income. Gains and losses arising on sale of available for sale investments are recognized during the period in which they occur after the settlement of any unrealized gains or losses that have been recognized previously. Cash distributions from these investments are recognized in the consolidated statement of income when these distributions are declared by the investee.

Inventories

Inventories are carried at the lower of cost or market value. Cost is determined by using the moving weighted average method. A provision is taken (if necessary) for obsolete, slow moving and damaged inventory.

Provisions and contingent liabilities

Provisions are recognized for obligations of uncertain timing or amount, when the Company has a contractual or legal obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Properties and equipment

Properties and equipment stated at cost less accumulated depreciation and impairment loss. Repair and maintenance expenses are considered revenue expenditures and improvement expenses are considered capital expenditures. Depreciation charges are calculated using the straight-line method over the estimated useful life. Leasehold improvements and buildings constructed over leased lands are depreciated over the shorter of (a) the estimated useful life of the improvements or the buildings; or (b) the lease term. The estimated lives of the principal classes of assets are as follows:

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	<u>Years</u>
Machinery and equipment	10
Buildings	20 – 25
Vehicles	5 – 7
Computers	5 – 7
Furniture and fixtures	7
Leasehold improvements	10

Investment properties

Investment properties in the form of buildings and lands that are held to earn rentals or held for long periods to earn capital appreciation are recognized at cost less accumulated depreciation, and impairment, if any. Lands are not depreciated. The estimated useful lives of buildings constructed on owned lands are 20 – 25 years while the buildings constructed on leased lands are depreciated over the shorter of 25 years or the lease term.

Projects under construction

Projects under construction are stated at the costs incurred until such projects are completed and become ready for the purposes they were established for, and then those costs are capitalized to the related assets. Projects under construction include the costs of contractors, materials and services, finance costs, salaries, other direct costs and indirect costs that are charged on a consistent basis. Projects under construction are not depreciated.

Impairment of non-current assets

At each reporting date, the Company reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication existed, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. In circumstances where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

If the recoverable amount, of an asset or a cash generating unit, is estimated to be less than its carrying amount, the carrying amount of the asset or the cash generating unit is reduced to its recoverable amount. Impairment losses are expensed in the statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or the cash generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or the cash generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income.

Biological Assets

Biological assets are stated at cost of purchase or at the cost of raising/cultivating to the point of commercial production, less accumulated depreciation. The costs of immature biological assets are determined by the cost of raising/cultivating to their respective age. Biological assets are depreciated on a straight-line basis over their estimated life of five years.

Intangible assets

Intangible assets represent costs incurred to obtain rights to benefit from rented sites (key money). These assets are amortized over the term of the related lease contracts.

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Borrowing costs

Borrowing costs directly attributable to acquisitions or constructions of assets qualifying for capitalization of borrowing costs, which are the assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until the assets are substantially ready for their intended use or sale at which point the capitalization of such costs ceases. All other borrowing costs are charged to the consolidated statement of income in the period in which they are incurred.

Statutory reserve

In accordance with the Companies' Regulation applicable in Saudi Arabia and the Company's articles of association, the Company establishes a statutory reserve by the appropriation of 10% of annual net income until the reserve reaches 30% of the paid share capital, in which case the appropriation may be ceased. This reserve is not available for distribution as dividends. This appropriation is made only at the end of the year.

Foreign currency translation

Transactions in foreign currencies are translated into Saudi Riyals at the rates of exchange prevailing at the time of such transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of income.

The Company's books and accounts are maintained in Saudi Riyals. Assets and liabilities of foreign subsidiaries are translated into Saudi Riyals at the exchange rates in effect at the date of the consolidated statement of financial position. The components of foreign subsidiaries' equity accounts, except retained earnings, are translated at the exchange rates in effect at the dates the related items originated. The elements of foreign subsidiaries' income statement are translated using the weighted-average exchange rate for the year. Material adjustments resulting from the translation of foreign subsidiaries' financial statements into Saudi Riyals are reported as a separate component of equity in the consolidated financial statements.

Provision for end-of-service remuneration

The provision for end-of-service remuneration is calculated in accordance with the Labor Regulation in the Kingdom of Saudi Arabia, and on the basis of total benefits that the employee deserves in case of leaving his work at the reporting date, reduced by any prepayments to the employee. Differences between actual end of service benefits paid and the provision, if any, are recognized at the end of the employee service.

Zakat and tax

The Company and its subsidiaries that are registered in the Kingdom of Saudi Arabia are subject to the regulations of the General Authority of Zakat and Tax ("Authority") in the Kingdom of Saudi Arabia. The zakat charge is computed on the zakat base. Overseas subsidiaries are subject to the tax regulations of the countries in which they operate. Zakat and income tax are charged in the current period consolidated statement of income.

Earnings per share

Earnings per share are calculated by using the weighted average number of shares in issue during the period. All issued shares are ordinary shares.

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Segmental information

A segment is considered a significant part of the Group, and provides products or services (business segment), or provides products or services within a particular economic environment (geographical segment). Profits and losses of a particular segment varies from other segments.

	As at 31 December	
	<u>2016</u>	<u>2015</u>
4. <u>CASH AND CASH EQUIVALENTS</u>		
Cash on Hand	52,992,163	71,242,917
Cash at Banks	260,923,323	258,183,208
	<u>313,915,486</u>	<u>329,426,125</u>
5. <u>SHORT-TERM INVESTMENTS</u>		
Investment Funds	31,285,925	-
Islamic Murabahas deposits	30,363,721	-
	<u>61,649,646</u>	<u>-</u>
6. <u>INVENTORY, NET</u>		
Goods in central warehouse	317,726,202	285,714,422
Goods in branches	389,760,859	343,089,418
Shortage and Slow-moving stock provisions	(26,974,687)	(24,807,934)
	<u>680,512,374</u>	<u>603,995,906</u>
7. <u>PREPAYMENTS AND OTHER RECEIVABLES</u>		
Prepaid expenses	92,598,442	84,606,601
Refundable Deposits	9,164,775	67,028,075
Advanced payments to suppliers	31,444,946	41,132,231
Due from tenants	13,488,368	17,714,250
Employees' receivables	5,654,797	4,935,235
Margin on letters of credit and letter of guarantees	14,608,656	3,675,289
Insurance claims	-	15,600,826
Due from related parties	6,311,564	7,389,861
Others	15,268,516	8,524,522
Provision for doubtful debts	(12,499,419)	(11,451,945)
	<u>176,040,645</u>	<u>239,154,945</u>

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7-a. <u>Due From Related Parties</u>	<u>2016</u>	<u>2015</u>
OSM Trading company	3,809,680	7,389,861
Abdullah Al Othaim Real Estate Investment & Development Company	2,501,884	-
	6,311,564	7,389,861

8. INVESTMENTS IN ASSOCIATES

	<u>2016</u>	<u>2015</u>
Balance at 1 January	169,644,532	178,831,391
Company's share in net profits	25,365,154	26,884,450
Additions during the year	5,632,572	26,124,563
Company's share in comprehensive income of associates	(717,505)	717,505
Company's share in translation differences in associates	1,281,853	-
Disposals	-	(35,288,377)
Dividends received	(28,673,086)	(27,625,000)
Balance at 31 December	172,533,520	169,644,532

<u>Company</u>	<u>Ownership %</u>	<u>Country of incorporation</u>	<u>Capital</u>	<u>Currency</u>
Abdullah Al-Othaim for Real Estate Investment and Development company	13.6538	Kingdom of Saudi Arabia	1,000,000,000	Saudi Riyal
O.S.M Trading company	50	United Arab Emirates	544,600	American dollar
Alwousta Food Services Company	25	Kingdom of Saudi Arabia	100,000,000	Saudi Riyal

As at 31 December

9. <u>AVAILABLE FOR SALE INVESTMENTS</u>	<u>2016</u>	<u>2015</u>
Available for sale investments in shares of listed companies	10,499,997	10,499,997
Available for sale investments in shares of unlisted companies	7,006,089	7,006,089
Unrealized (losses)	(2,514,591)	(860,639)
	14,991,495	16,645,447

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10. PROPERTIES AND EQUIPMENT, NET

	Lands	Machinery and equipment	Buildings	Vehicles	Computers	Furniture and fixtures	Leasehold improvements	Projects under construction	Total
Cost									
1 January 2016	372,948,632	354,451,153	292,469,945	98,883,551	109,032,118	171,183,183	180,209,056	208,237,151	1,787,414,789
Additions	100,376,713	66,153,940	17,375,828	11,348,299	24,627,169	32,210,199	13,529,416	209,558,293	475,179,857
Transferred from Projects under construction	-	9,524,157	85,608,635	-	3,947,588	10,238,436	15,623,481	(124,942,297)	-
Transferred from Investment properties	-	-	2,830,498	-	-	-	-	-	2,830,498
Transferred to Investment properties	(33,946,895)	-	-	-	-	-	-	(198,607,011)	(232,553,906)
Disposals	-	(2,354,237)	(11,012,752)	(1,294,718)	(1,793,490)	(2,058,993)	(33,649)	(1,662,541)	(20,210,380)
Foreign currency translation adjustments - Subsidiaries	-	(3,822,109)	-	(481,645)	(1,127,782)	(820,194)	(2,243,594)	(1,427,053)	(9,922,377)
31 Dec. 2016	439,378,450	423,952,904	387,272,154	108,455,487	134,685,603	210,752,631	207,084,710	91,156,542	2,002,738,481
Accumulated depreciation									
1 January 2016	-	169,827,919	74,456,611	57,326,572	58,879,945	103,564,100	96,397,917	-	560,453,064
Charge for the year	-	39,487,852	18,344,489	10,033,819	16,884,013	17,887,688	17,455,454	-	120,093,315
Disposals	-	(2,065,317)	(9,298,864)	(980,994)	(1,392,819)	(1,976,907)	(6,388)	-	(15,721,289)
Foreign currency translation adjustments- Subsidiaries	-	(170,083)	-	(35,750)	(181,383)	(41,829)	(88,276)	-	(517,321)
31 Dec. 2016	-	207,080,371	83,502,236	66,343,647	74,189,756	119,433,052	113,758,707	-	664,307,769
Net book value									
31 Dec. 2016	439,378,450	216,872,533	303,769,918	42,111,840	60,495,847	91,319,579	93,326,003	91,156,542	1,338,430,712
31 Dec. 2015	372,948,632	184,623,234	218,013,334	41,556,979	50,152,173	67,619,083	83,811,139	208,237,151	1,226,961,725

- Title deeds of certain lands amounting to SR 37 million are being transferred to the company and are currently under the name of an Associate company-Abdullah Al-Othaim for Real Estate Investment and Development Company.
- Lands mentioned above include an amount of SR 217.1 million and buildings constructed over it valued at SR 63.5 million as at 31 Dec,2016 (2015: lands SR 211 million, buildings valued at SR 35.1 million) are mortgaged to some banks against bank facilities (Note 14B).
- The Group has capitalized the borrowing costs related to the projects under construction amounting to SR 7.6 million (2015: SR 3.1 million).

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11. INVESTMENT PROPERTIES, NET

The investment properties represent shopping malls, showrooms and buildings used primarily for investment and leasing to others. The movement during the year as at 31 December 2016 was as follows:

	<u>2016</u>	<u>2015</u>
Cost		
At 1 January	586,112,072	588,457,694
Additions	3,529,832	132,206
Transfer from projects under construction	198,607,011	-
Transfers from properties and equipment	33,946,895	-
Transfers to properties and equipment	(2,830,498)	(2,477,828)
At 31 December	819,365,312	586,112,072
Accumulated depreciation		
At 1 January	118,117,802	95,549,198
Charge for the year	26,873,093	23,249,322
Transfer to properties and equipment	-	(680,718)
At 31 December	144,990,895	118,117,802
Net Book value	674,374,417	467,994,270

- The lands classified as investment properties includes lands amounting to SR 3.2 million and includes buildings amounting to SR 2.6 million (2015: lands; SR 64 million and include buildings amounting to SR 2.6 million) are mortgaged to some banks against bank facilities (Note 14B).
- The Board of directors Abdullah Al-Othaim Markets Company has recommended in its meeting held on 27 December 2016 to sell the shopping mall in Ha'el city (a shopping mall) to Abdullah Al-Othaim for Real Estate Investment and Development Company (a related party). The book value of the properties is estimated to be SR 249.1 million when the deal is sealed.

12. BIOLOGICAL ASSETS, NET

The biological assets represent livestock owned by one of the subsidiaries (Thamarat Al Qassim). The biological assets are depreciated using the straight-line method over the estimated useful life of five years. The movement during the year was as follows:

	<u>2016</u>	<u>2015</u>
Cost		
At 1 January	1,368,520	1,603,667
Additions	979,686	2,544
Disposals	(2,348,206)	(237,691)
At 31 December	-	1,368,520
Accumulated depreciation		
At 1 January	571,620	370,401
Charge for the period	330,472	299,333
Disposals	(902,092)	(98,114)
At 31 December	-	571,620
Net Book value	-	796,900

During 2016, Management decided to cease the activity of raising livestock and meat production of the subsidiary Thamarat Al Qassim Company.

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13. INTANGIBLE ASSETS, NET

The intangible assets consist of the costs incurred to obtain the rights of use from leased real properties from the original lessee. These assets are amortized over the tenancy period of 10 to 15 years. The movement during the year and as at 31 December was as follows:

	2016	2015
Cost		
At 1 January	19,647,325	19,597,230
Additions	102,075	50,095
At 31 December	19,749,400	19,647,325
Accumulated depreciation		
At 1 January	8,287,995	6,489,768
Charge of the period	1,950,397	1,798,227
At 31 December	10,238,392	8,287,995
Net Book Value	9,511,008	11,359,330

14. LOANS AND MURABAHAS

a) Short-term Murabahas:

The Company has facilities from local commercial banks in the form of short-term Murabahas to fund the working capital. Unutilized balance of these Murabaha as at 31 December 2016 amounted to SR 340 million (31 December 2015: SR 270 million).

b) Long-term loans and Murabahas:

	As at 31 December	
	2016	2015
Current portion	187,213,333	192,213,333
Non-current portion	412,286,670	399,500,000
Total	599,500,003	591,713,333

Certain facilities are secured by mortgage of land title deeds owned by the Company with a book value of SR 220 million and include buildings valued at SR 66.1 million as at 31 December 2016 (2015: Lands book value SR 275 million and include buildings valued at SR 37.7 million).

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15. RELATED PARTIES

- The related parties of the group are comprised of its shareholders, associates, and board of directors members. Transactions with related parties are in accordance with the terms and agreements approved by the management.

- Below are major transactions with related parties during the period :-

<u>Company</u>	<u>Nature of relationship</u>	<u>Nature of transactions</u>	<u>Transaction</u>	
			<u>2016</u>	<u>2015</u>
Abdullah Al-Othaim for Real Estate Investment and Development Company	Associate	Rent expenses	15,563,859	10,644,267
Abdullah Al-Othaim for Real Estate Investment and Development Company	Associate	Rent income	45,276,171	37,364,525
Abdullah Al-Othaim for Real Estate Investment and Development Company	Associate	Ticket sales	409,965	-
Al-Othaim Holding Company	Founding Shareholder	Rent expense	10,000	10,000
Al-Othaim Holding Company	Founding Shareholder	Rent income	710,050	728,800
Al-Othaim Holding Company	Founding Shareholder	Ticket sales	2,941,456	-
General Organization of Social Insurance	Board member	Rent expense	5,562,500	5,562,500
Alwousta Food Services Company	Associate	Rent income	350,000	-
OSM Trading Company	Associate	Goods purchases	54,743,927	75,898,746

- Prepayments as at December 31, 2016 include an amount of SR 8.1 million (2015: SR 7.53 million) which represent prepaid rent to related parties according to the contractual terms.

16. ACCRUALS AND OTHER PAYABLES

	<u>As at 31 December</u>	
	<u>2016</u>	<u>2015</u>
Payables to employees	87,034,650	47,034,007
Unearned revenue-Iktissab loyalty program	39,368,632	32,237,333
Non-trade payables	61,629,257	40,318,331
Al-Othaim cards received in advance	31,337,406	25,137,566
Deposits from third party	57,678,380	68,359,351
Accrued utilities	28,951,187	16,620,254
Unearned rent revenue and others	26,515,696	18,391,389
Provision against legal claims and other	11,723,591	5,179,730
Others	11,065,776	18,060,550
	<u>355,304,575</u>	<u>271,338,511</u>

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17. ZAKAT

A) Zakat and Tax position

The Company has submitted its Zakat declarations to the General Authority for Zakat and Tax (“Authority”) for all the previous years up to 31 December 2015 and has paid Zakat due and received Zakat certificate. Furthermore, the Company has settled its Zakat position with the Authority for all previous years up to 31 December 2011. The Company did not receive any Zakat assessments from 2012 to 2015. In addition, the Company’s subsidiaries had submitted their Zakat declarations to the Authority up to 2015 within the Company’s consolidated declaration. No Zakat or tax issues exist with respect to subsidiaries.

B) Zakat Base

The Zakat Base of company, which is determined based on the consolidated financial statement of the company, is made up primarily of:

	As at 31 December	
	2016	2015
Shareholders’ Equity for the year	1,104,636,108	952,653,880
Net Income before Zakat	238,397,962	236,197,893
Provisions	116,892,826	105,888,981
Loans	599,500,003	591,713,333
Investments in companies	(187,525,015)	(186,289,979)
Properties and Equipment	(2,022,316,137)	(1,707,112,225)
Zakat Base	(150,414,253)	(6,948,117)

Given the Zakat base is a negative figure, the Zakat provision was calculated on the basis of adjusted net income.

C) The movement of Zakat and tax Provision for the year ending 31 December is as follows:

	2016	2015
Balance at the beginning of the year	9,798,497	8,585,233
Provision added during the year	8,365,856	5,322,531
Effect of consolidating subsidiaries	(274,262)	-
Paid during the year	(3,332,996)	(4,109,267)
Balance at the end of the year	14,557,095	9,798,497

18. STATUTORY RESERVE

The statutory reserve is not available for distribution to shareholders. However, it can be used to cover losses or increase Company’s capital. When the statutory reserve exceeds 30% of the company’s capital, the General Assembly may decide to distribute the excess as dividends to the shareholders in the years in which the company does not achieve sufficient net profits to distribute the minimum dividends set out in its Articles of Association. The reserve has been used to increase capital in accordance with the resolution of the General Assembly of Shareholders on 6 April 2014.

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19. OTHER RESERVES

Other reserves represent the Company's share in fair value changes of financial derivatives held in an associate company and was recorded in the statement of changes in equity.

20. RENTAL INCOME, NET	As at 31 December	
	2016	2015
Revenue from rented shops	106,990,905	98,256,034
Revenue from marketing rentals	16,577,798	12,942,319
Expenses of rented shops	(54,613,634)	(48,981,997)
	68,955,069	62,216,356

21. SELLING AND MARKETING EXPENSES

Marketing Salaries and benefits	526,208,191	412,497,635
Rents	101,304,791	84,757,196
Depreciation and Amortization	96,168,070	80,602,115
Utilities	72,634,407	52,568,167
Advertising and Marketing promotion	54,688,857	37,395,209
Packing and Packaging materials	33,312,359	30,512,477
Maintenance and repairs	22,999,564	18,354,042
Fuel, oil and supplies	18,495,829	10,271,787
Freight charges for branches	19,710,854	11,567,102
Commissions for payment network	7,672,329	7,198,396
Insurance expenses	6,609,366	5,327,222
Professional and subscription fees	5,712,911	4,808,857
Doubtful debts expenses	-	1,217,720
Other	14,593,526	8,044,771
	980,111,054	765,122,696

22. GENERAL AND ADMINISTRATIVE EXPENSES

Salaries and benefits	89,402,930	58,924,511
Depreciation and Amortization	10,265,518	7,270,265
Fees and Subscriptions	4,608,841	4,150,259
Utilities	2,964,064	2,989,353
Rent	5,292,987	3,503,414
Maintenance and repairs	3,693,760	2,012,497
Fuel, oil and supplies	1,510,207	849,244
Professional and subscription fees	2,199,295	2,018,359
Hospitality	462,726	488,833
Other	4,866,320	3,584,444
	125,266,648	85,791,179

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23. SEGMENT INFORMATION

The Company's main activities include retail and wholesale of consumer foods and carries out its operations in the Kingdom of Saudi Arabia and Arab Republic of Egypt. In addition, the Company invests in shopping mall development Sector by selling or renting in favor of the company. Selected information was summarized for each business segment as at 31 December:

	For the period ended 31 December 2016		For the period ended 31 December 2015	
	Retail and wholesale	Building and leasing (rents)	Retail and wholesale	Building and leasing (rents)
Sales	7,171,729,236	-	6,035,801,745	-
Rental income	-	123,568,703	-	111,198,353
Gross Profit	1,271,661,218	68,955,069	998,471,559	62,216,356
Properties and equipment, net	1,338,430,712	674,374,417	1,226,961,725	467,994,270
Biological Assets	-	-	796,900	-

	For the period ended 31 December 2016		For the period ended 31 December 2015	
	Retail and wholesale	%	Retail and wholesale	%
Kingdom of Saudi Arabia				
Central region	5,054,612,462	69.81%	4,327,071,474	70.96%
Eastern region	706,257,349	9.75%	656,128,935	10.76%
Southern region	687,139,710	9.49%	524,511,439	8.60%
Northern region	563,395,805	7.78%	414,952,093	6.80%
Western region	196,320,805	2.71%	175,354,160	2.88%
Arab Republic of Egypt	32,958,175	0.46%	-	00.0%
Total sales	7,240,684,306		6,098,018,101	

24. DIVIDENDS

On 27 March 2016, the Shareholders' General Assembly approved the distribution of cash dividends of SR 90 million representing SR 2 per share for the fiscal year ended 31 December 2015. These Dividends were paid to the Shareholders on 12 April 2016.

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25. BUSINESS COMBINATION

On 1st of October 2015, the Group has increased its ownership in Riyadh Foods Industries Company from 50% to 55% for a consideration amount of SR 10 million. This acquisition resulted in consolidating the accounts of Riyadh Foods Industries Company as a subsidiary instead of accounting for the investment using the equity method. The company accounted for the transaction on the basis of the carrying amounts of the assets and liabilities as at the date of acquisition as summarized below:

	<u>Carrying value recognized on acquisition date</u>
<u>Assets</u>	
Cash on hand and at the bank	405,668
Trade receivables	26,182,599
Prepaid expenses and other current assets	17,552,279
Inventories	44,150,188
Properties and equipment	65,034,082
	153,324,816
<u>Liabilities</u>	
Payables	27,899,895
Notes payable	27,686,837
Accrued expenses and other liabilities	9,656,275
Accrued zakat	1,450,916
Other liabilities	12,221,268
End of service benefits	3,978,263
	82,893,454
Net Assets (Shareholders' equity)	70,431,362
Non-controlling interests in net losses	145,392
Total equity	70,576,754
Add: Increase in capital	10,000,000
Less: Non-controlling interests 45%	(36,259,539)
Controlling interests in the book value of shareholders' equity 55%	44,317,215
<u>Acquisition Cost:</u>	
Consideration paid	10,000,000
Book value of shares held prior to the date of acquisition	35,288,377
Total acquisition cost	45,288,377

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26. IMPAIRMENT LOSS IN ASSETS

- During the year ended 31 December 2015, a fire occurred at one of the manufacturing facilities of Riyadh Foods Industries Company (subsidiary). The fire resulted in a damage to certain properties and equipment as well as inventories with a book value of SR 20.6 million. The subsidiary has recognized an impairment loss amounting to SR 5 million. The Company's share of the loss is SR 11.33 million of which SR 2.75 million was recorded in 2015 and SR 8.6 million was recorded in the first quarter of 2016. The subsidiary has recognized further impairment loss amounting to SR 15.6 million in its financial statements for 2015, after the issuance of the financial statements of the Company for the same year. At the reporting date, no assured value of compensation was communicated by the insurance company.
- During the fourth quarter of 2016, the Management decided to cease the cultivation of fodder, raising livestock, animal production, and open farming activities in Thamarat Al Qassim Company (subsidiary). This resulted in an impairment loss in the value of the assets related such activities amounting to SR 4.42 million

27. OPERATING LEASES

The group has several lease contracts that are related to its shops, show rooms, and employee housing. Rental expenses for the year ended 31 December 2016 amounted to SR 106.6 million (2015: SR 88.26 million). The minimum future lease payments as at 31 December according to the contracts are as follows:-

2017	68,180,400
2018	72,408,266
2019	55,539,289
2020	50,493,059
2021	42,427,059
After 2021	301,786,780

The Group has rented various stores inside its show rooms. Rental income from these operating lease contracts were SR 106.99 million as at 31 December 2016 (2015: SR 98.26 million).

28. CONTINGENCIES AND COMMITMENTS

- a) As at **31 December**, the Company has the following commitments and contingent liabilities:

	<u>2016</u>	<u>2015</u>
Letters of credit	<u>75,238,067</u>	<u>35,286,228</u>
Letters of guarantee	<u>47,162,261</u>	<u>8,946,175</u>
Capital commitments associated to projects under construction	<u>124,778,491</u>	<u>128,980,594</u>

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29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The financial instruments included in the consolidated statement of financial position include mainly cash and bank balances, receivables, other receivables, accounts payable, accrued expenses and other current liabilities.

Commission Risk

Commission risk arises from fluctuations and volatility in interest rates that affect future profit or the fair values of financial instruments.

The Group's financial instruments that can be exposed to credit risk include cash in banks and customer receivables. The group deposits its cash in reliable financial institutions with high credit capacity. In addition, the group also has a policy regarding the volume of cash deposited in each bank and management does not expect significant credit risks to arise from this. Furthermore, management does not expect to be exposed to significant credit risk from its customer accounts on the basis that (a) it has a broad base of customers operating in diversified activities and multiple locations and (b) it closely monitors existing receivables.

Foreign Currency Risk

Foreign currency risk arises from fluctuations and volatility in financial instruments values resulting from the change in foreign exchange rates. The Group's transactions are denominated primarily by Saudi Riyals and US Dollars. Furthermore, the Group deals in the Egyptian Pound through its Egyptian subsidiary— Othaim markets company. During the periods covered by the financial statements, the Group has not carried out any transactions of relative importance in foreign currencies other than the Saudi Riyal and the US Dollar except for the transactions of the subsidiary in the Arab Republic of Egypt which have been reflected in the financial statements. As the Saudi Riyal is pegged against the US Dollar, balances in US Dollars do not represent significant currency risk. The Group's management monitors currency fluctuations and believes that currency risk is not material

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its obligations in respect of financial liabilities as they fall due. Liquidity needs are monitored on a monthly basis and management ensures that sufficient funds are available to meet any liabilities when they fall due. The Group's financial liabilities consist of loans and Murabaha financing, accounts payable, payment notes and other liabilities and due to related parties. The Company limits liquidity risk by ensuring that bank facilities are available, as well as matching the payment periods of suppliers' balances with the periods of collection of customer balances.

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Fair Value

Fair value is the amount at which an asset is exchanged or a liability is settled between knowledgeable and willing parties and the transactions are carried out on the same terms as those consummated with third parties. As the financial instruments of the company are recorded on a historical cost basis, differences may arise between the carrying amount and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values

30. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to be consistent with the presentation of the current year.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Audit Committee on Jumada Al-Thani 16, 1438 (H) corresponding to 15 March, 2017 (G).
