

BIN DAWOOD HOLDING COMPANY LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017

INDEPENDENT AUDITORS' REPORT TO THE PARTNERS' OF BIN DAWOOD HOLDING COMPANY LIMITED

Opinion

We have audited the consolidated financial statements of Bin Dawood Holding Company Limited ("the Company" or "the Parent Company") - a Limited Liability Company, and its subsidiaries ("the Group") which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of income, consolidated statement of cash flows and consolidated statement of changes in partner's equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Accounting Standards Generally Accepted in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with professional code of conduct and ethics that are 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Accounting Standards Generally Accepted in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and the Company's Articles of Association, 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.

Auditors' 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 auditors' 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.

**INDEPENDENT AUDITORS' REPORT TO THE PARTNERS' OF
BIN DAWOOD HOLDING COMPANY LIMITED (continued)**

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with International Standards on Auditing that are 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 auditors' 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 auditors' 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.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Licence No. 356

25 Dhul Qadah 1440 H
28 July 2019

Jeddah
20/03/AIR



Bin Dawood Holding Company Limited

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

| | <i>Note</i> | 2017 SR | 2016 SR |
|---|-------------|----------------------|--------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Bank balances and cash | | 94,656,298 | 88,640,692 |
| Accounts receivable and prepayments | 4 | 163,599,801 | 159,552,040 |
| Inventories | 5 | 759,664,759 | 649,941,714 |
| TOTAL CURRENT ASSETS | | 1,017,920,858 | 898,134,446 |
| NON-CURRENT ASSET | | | |
| Property and equipment | 7 | 1,078,388,330 | 877,193,424 |
| TOTAL ASSETS | | 2,096,309,188 | 1,775,327,870 |
| LIABILITIES AND PARTNERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accruals | 8 | 1,042,594,302 | 882,957,000 |
| Dividend payable | | - | 33,445,201 |
| Zakat payable | 9 | 16,890,006 | 14,415,306 |
| TOTAL CURRENT LIABILITIES | | 1,059,484,308 | 930,817,507 |
| NON-CURRENT LIABILITY | | | |
| Employees' end of service benefits | | 74,367,903 | 61,908,141 |
| TOTAL LIABILITIES | | 1,133,852,211 | 992,725,648 |
| PARTNERS' EQUITY | | | |
| Capital | 10 | 530,000,000 | 530,000,000 |
| Statutory reserve | 11 | 91,930,696 | 48,600,005 |
| Retained earnings | | 340,526,281 | 204,002,217 |
| TOTAL PARTNERS' EQUITY | | 962,456,977 | 782,602,222 |
| TOTAL LIABILITIES AND PARTNERS' EQUITY | | 2,096,309,188 | 1,775,327,870 |

The attached notes 1 to 19 form part of these consolidated financial statements.

Bin Dawood Holding Company Limited
CONSOLIDATED STATEMENT OF INCOME
Year ended 31 December 2017

| | <i>Note</i> | 2017 SR | 2016 SR |
|---|-------------|------------------------|--------------------|
| Sales | | 4,766,276,071 | 4,518,083,309 |
| Cost of sales | | (3,762,658,920) | (3,543,865,573) |
| GROSS PROFIT | | 1,003,617,151 | 974,217,736 |
| Selling and distribution expenses | 12 | (975,826,347) | (782,680,508) |
| General and administration expenses | 13 | (151,735,600) | (134,590,672) |
| Gandola income | 14 | 545,610,156 | 407,841,359 |
| INCOME FROM MAIN OPERATION | | 421,665,360 | 464,787,915 |
| Other income, net | 15 | 14,403,418 | 29,590,323 |
| INCOME FOR THE YEAR BEFORE ZAKAT | | 436,068,778 | 494,378,238 |
| Zakat | 9 | (2,761,868) | (13,378,186) |
| NET INCOME FOR THE YEAR | | 433,306,910 | 481,000,052 |

The attached notes I to 19 form part of these consolidated financial statements.

Bin Dawood Holding Company Limited

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

| | <i>Note</i> | 2017 SR | 2016 SR |
|---|-------------|----------------------|--------------------|
| OPERATING ACTIVITIES | | | |
| Income for the year before zakat | | 436,068,778 | 494,378,238 |
| Adjustments for: | | | |
| Depreciation | 7 | 149,721,556 | 109,711,240 |
| Loss / (gain) on write-off and disposal of property and equipment | 15 | 1,090,529 | (71,143) |
| Provision for employees' end of service benefits, net | | 12,459,762 | 10,614,203 |
| | | 599,340,625 | 614,632,538 |
| Changes in operating assets and liabilities: | | | |
| Receivables | | (4,047,761) | (41,691,497) |
| Inventories | | (109,723,045) | (28,446,655) |
| Payables | | 159,637,302 | 142,391,541 |
| Cash from operations | | 645,207,121 | 686,885,927 |
| Zakat paid | 9 | (287,168) | (12,465,172) |
| Net cash from operating activities | | 644,919,953 | 674,420,755 |
| INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | 7 | (353,318,497) | (390,995,354) |
| Proceeds from disposal of property and equipment | | 1,311,506 | 1,416,667 |
| Net cash used in investing activities | | (352,006,991) | (389,578,687) |
| FINANCING ACTIVITY | | | |
| Dividend paid | | (286,897,356) | (253,478,884) |
| Net cash used in financing activities | | (286,897,356) | (253,478,884) |
| INCREASE IN BANK BALANCES AND CASH | | 6,015,606 | 31,363,184 |
| Bank balances and cash at the beginning of the year | | 88,640,692 | 57,277,508 |
| BANK BALANCES AND CASH AT THE END OF THE YEAR | | 94,656,298 | 88,640,692 |

The attached notes 1 to 19 form part of these consolidated financial statements.

Bin Dawood Holding Company Limited

CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' EQUITY

Year ended 31 December 2017

| | <i>Capital SR</i> | <i>Proposed increase in capital SR</i> | <i>Statutory reserve SR</i> | <i>Retained earnings SR</i> | <i>Total SR</i> |
|------------------------------------|-----------------------|--|-------------------------------------|-------------------------------------|---------------------|
| Balance at 31 December 2015 | 1,000,000 | 529,000,000 | 500,000 | - | 530,500,000 |
| Increase in capital | 529,000,000 | (529,000,000) | - | - | - |
| Net income for the year | - | - | - | 481,000,052 | 481,000,052 |
| Transfer to statutory reserve | - | - | 48,100,005 | (48,100,005) | - |
| Dividend | - | - | - | (228,897,830) | (228,897,830) |
| Balance at 31 December 2016 | 530,000,000 | - | 48,600,005 | 204,002,217 | 782,602,222 |
| Net income for the year | - | - | - | 433,306,910 | 433,306,910 |
| Transfer to statutory reserve | - | - | 43,330,691 | (43,330,691) | - |
| Dividend | - | - | - | (253,452,155) | (253,452,155) |
| Balance at 31 December 2017 | 530,000,000 | - | 91,930,696 | 340,526,281 | 962,456,977 |

The attached notes 1 to 19 form part of these consolidated financial statements.

Bin Dawood Holding Company Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

1 ORGANIZATION AND ACTIVITIES

Bin Dawood Holding Company Limited, (the "Company" or the "Parent Company") is a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4031063470 dated 16/08/1432H corresponding to 17 July 2011. The Parent Company is fully owned by GCC nationals.

The Parent Company's objective is to manage its subsidiaries and joint ventures and to provide required support to such subsidiaries and joint ventures. The Parent Company objective also includes to acquire properties and moveable assets required for its activities and acquire, lease and utilize equity rights of industrial and commercial patents, brands, franchise and other abstract rights for its subsidiaries and joint ventures.

2 BASIS OF PREPARATION AND CONSOLIDATION

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (the "Group"). All material intra-group transactions and balances have been eliminated on consolidation.

During the year, the partners resolved to convert the Company from a Limited Liability Company ("LLC") to a Closed Saudi Joint Stock Company ("CJSC"). The Company obtained initial revised commercial registration as CJSC on 16 July 2017 and revised updated during 2019, considering that the company obtained revised by-laws and that the Ministry of Commerce and Industry ("MOCI") has issued opinion on the transformation into CJSC, the Company's management has concluded that the change in legal term did not result in creating a new accounting unit and therefore these financial statements are prepared for the full year ended 31 December 2017 for the Company as LLC.

Subsidiaries

Subsidiaries are companies in which the Group has, directly or indirectly, long term investment comprising an interest of more than 50% in the voting capital or over which it exerts control. Subsidiaries are consolidated from the date the Group obtains control until the date that such control ceases. The consolidated financial statements are prepared on the basis of the individual financial statements of the Parent Company and the audited financial statements of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full on consolidation.

In case of the change in the ownership interest of a subsidiary, resulting in a loss of control, the retained investment in an enterprise, which was previously a subsidiary, is valued at its fair value at the date of change. The difference between the fair value and carrying value of retained investment is accounted for in the consolidated statement of income. Accordingly, if the Group loses control over a subsidiary, it:

- Derecognises the assets and the liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises cumulative translation differences recorded in equity, if any
- Recognises the fair value of sale consideration received
- Recognises the fair value of investment retained
- Recognises any gain or loss in the consolidated statement of income.

Non-controlling interests, if any, represent the portion of profit or loss and net assets that are not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from Parent Company's partners' equity.

Acquisitions of subsidiaries which are under common control represent group reorganization and are accounted for at book values.

Bin Dawood Holding Company Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2017

2 BASIS OF PREPARATION AND CONSOLIDATION (continued)

2.1.1 NEW ACCOUNTING FRAMEWORK

According to the transition plan to International Accounting Standards approved by the board of Saudi Organization for Certified Public Accountants (SOCPA), effective 1 January 2018, the Company's financial statements will be prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements that are issued by SOCPA. Upon IFRS adoption, the Company will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards which require the Company to analyze the impacts and incorporate certain adjustments on the comparative figures and its opening balances.

2.2 BASIS OF CONSOLIDATION

These consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

| <i>Name</i> | <i>City of incorporation</i> | <i>Principle field of activity</i> | <i>% of capital held (directly & indirectly)</i> | |
|---|------------------------------|--|--|-------------|
| | | | <i>2017</i> | <i>2016</i> |
| Bin Dawood Superstores Company (A Limited Liability Company) | Makkah, Saudi Arabia | Engaged in retail trading of foodstuff and household items. | 100% | 100% |
| Danube Company for Foodstuffs and Commodities (A Limited Liability Company) | Jeddah, Saudi Arabia | Engaged in retail trading of foodstuff and household items. | 100% | 100% |
| Danube Star for Bakeries and Marketing Company Limited | Jeddah, Saudi Arabia | Engaged in operating bakeries and restaurant for foodstuff | 100% | 100% |

3 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

The significant accounting policies adopted are as follows:

Accounting convention

The consolidated financial statements are prepared under the historical cost convention.

Use of estimate

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined as follows:

| | | |
|-------------------------------------|---|--|
| Raw material and Packaging material | - | purchase cost on a weighted average basis. |
| Finished Goods | - | cost of direct materials and labour plus attributable overheads based on a normal level of activity. |

Bin Dawood Holding Company Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any minority interests in the acquiree. For each business combination, the acquirer measures the minority interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Business combinations involving entities under common control are accounted for at book values.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Capital work in progress is not depreciated. The cost less estimated residual value of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure for repair and maintenance are charged to consolidated statement of income. Improvements that increase the value or materially extend the life of the related assets are capitalized.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Zakat

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the consolidated statement of income. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalised.

Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

Employees' terminal benefits

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the consolidated balance sheet date.

Bin Dawood Holding Company Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue represents value of goods supplied and is recognized when the significant risk and rewards of ownership of goods have passed to the buyer and the amount of revenue can be measured reliably, normally on delivery of goods to customers, net of trade and quantity discounts. Rental income is recognized over the lease term. Promotional and display income is recognized when earned. Amounts collected in advance are recorded as unearned income.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidated balance sheet date. All differences are taken to the consolidated statement of income.

Expenses

Selling and distribution expenses are those that specifically relate to selling and distribution activities of the Group. All other expenses except cost of sales are classified as general and administration expenses. Allocation of common expenses to cost of sales, selling and distribution, and general and administration, when required are made on a consistent basis.

Leases

Operating lease payments are recognised as an expense in the statement of income on a straight-line basis over the lease term.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not set-off in consolidated statement of income unless required or permitted by generally accepted accounting principles in the Kingdom of Saudi Arabia.

4 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 2017 SR | 2016 SR |
|----------------------------------|--------------------|--------------------|
| Trade accounts receivable | 30,449,530 | 12,429,082 |
| Other receivables | 68,684,849 | 75,514,148 |
| Prepayments | 56,178,886 | 62,876,039 |
| Amounts due from related parties | - | 92,000 |
| Employee advances | 5,155,396 | 5,224,341 |
| Advances to suppliers | 3,131,140 | 3,386,430 |
| Margin on letters of guarantee | - | 30,000 |
| | <u>163,599,801</u> | <u>159,552,040</u> |

As at 31 December 2017 and 31 December 2016, none of the trade receivables were impaired. Further, none of the receivables of the Company were past due, more than normal collection cycle (2016: SR 0.27 million). Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured.

Bin Dawood Holding Company Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2017

5 INVENTORIES

| | 2017 SR | 2016 SR |
|------------------|--------------------|--------------------|
| Finished goods | 734,208,789 | 640,413,057 |
| Raw materials | 16,274,354 | 4,068,797 |
| Packing material | 9,181,616 | 5,459,860 |
| | 759,664,759 | 649,941,714 |

During the year, an amount of SR 58.36 million (2016: SR 51.12 million) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

6 RELATED PARTY TRANSACTIONS

Related parties represent partners, directors and key management personnel of the Company and entities controlled or significantly influenced by such parties. The following are the details of major related party transactions during the year:

| Related party | Nature of transactions | Amount of transactions | |
|----------------------|---|------------------------|--------------|
| | | 2017 SR | 2016 SR |
| Affiliates | Purchase of goods | (73,228,883) | (87,296,269) |
| | Rent charged by affiliates | (64,715,000) | (52,265,733) |
| | Rent charged to affiliates | 1,021,383 | 1,019,800 |
| | Expenses paid on behalf of affiliates | - | 86,331 |
| | Expenses charged by affiliates | - | 224,338 |
| | Goods transferred to affiliates | 2,025,459 | 1,418,790 |
| Partners | Management remuneration (note 13) | (27,810,000) | (29,735,000) |
| Directors | Board of Directors remuneration (note 13) | (400,000) | (400,000) |
| Management personnel | Remuneration | (7,123,026) | (7,290,000) |

Amounts due from / to related parties are shown in notes 4 and 8, respectively. Prices and terms of payment for transactions with related parties are approved by the management of the Group.

Bin Dawood Holding Company Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2017

7 PROPERTY AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

| | Equipment | Motor vehicles | Furniture, fixtures and leasehold improvements | Computers | Capital work in progress | Total 2017 SR | Total 2016 SR |
|-------------------------------|--------------------|-------------------|--|-------------------|--------------------------|----------------------|----------------------|
| | | 3 - 10 years | | | | | |
| | | 5 years | | | | | |
| | | 5 - 10 years | | | | | |
| | | 3 years | | | | | |
| Cost: | | | | | | | |
| At the beginning of the year | 570,082,020 | 48,037,465 | 520,489,001 | 46,946,476 | 206,747,862 | 1,392,302,824 | 1,012,781,060 |
| Additions | 39,781,703 | 7,470,691 | 25,705,694 | 4,389,233 | 275,971,176 | 353,318,497 | 390,995,354 |
| Disposals | (7,835,986) | (741,061) | (2,901,270) | (21,255) | - | (11,499,572) | (8,043,606) |
| Written off | (1,547,718) | - | (293,500) | (51,657) | - | (1,892,875) | (3,429,984) |
| Transfer | 165,948,914 | - | 148,121,045 | 9,790,638 | (323,860,597) | - | - |
| At the end of the year | 766,428,933 | 54,767,095 | 691,120,970 | 61,053,435 | 158,858,441 | 1,732,228,874 | 1,392,302,824 |
| Depreciation: | | | | | | | |
| At the beginning of the year | 259,291,426 | 34,361,398 | 185,275,631 | 36,180,945 | - | 515,109,400 | 415,526,226 |
| Charge for the year | 77,865,849 | 5,490,320 | 58,428,270 | 7,937,117 | - | 149,721,556 | 109,711,240 |
| Relating to disposals | (6,839,312) | (616,674) | (1,955,909) | (6,896) | - | (9,418,791) | (7,316,896) |
| Relating to written-off | (1,228,006) | - | (292,301) | (51,314) | - | (1,571,621) | (2,811,170) |
| At the end of the year | 329,089,957 | 39,235,044 | 241,455,691 | 44,059,852 | - | 653,840,544 | 515,109,400 |
| Net book amounts: | | | | | | | |
| At 31 December 2017 | 437,338,976 | 15,532,051 | 449,665,279 | 16,993,583 | 158,858,441 | 1,078,388,330 | |
| At 31 December 2016 | 310,790,594 | 13,676,067 | 335,213,370 | 10,765,531 | 206,747,862 | | 877,193,424 |

Bin Dawood Holding Company Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2017

7 PROPERTY AND EQUIPMENT (continued)

- a) Capital work in progress represents cost incurred by the subsidiaries for renovation of existing branches and setting up of new branches.
- b) Depreciation charged for the year is allocated as follows:

| | 2017 SR | 2016 SR |
|---|--------------------|--------------------|
| Selling and distribution expenses (note 12) | 142,165,765 | 102,711,760 |
| General and administration expenses (note 13) | 7,555,791 | 6,999,480 |
| | <u>149,721,556</u> | <u>109,711,240</u> |

8 ACCOUNTS PAYABLE AND ACCRUALS

| | 2017 SR | 2016 SR |
|--------------------------------|----------------------|--------------------|
| Trade accounts payable | 639,913,115 | 564,983,534 |
| Accrued and other payables | 370,794,306 | 273,795,487 |
| Unearned income | 21,969,104 | 24,962,281 |
| Amounts due to related parties | 9,917,777 | 19,215,698 |
| | <u>1,042,594,302</u> | <u>882,957,000</u> |

9 ZAKAT

The Parent Company has obtained an approval from GAZT for the consolidated filing of zakat return from the year ended 2016 onwards. Accordingly, zakat is assessed on consolidated basis effective 2016.

a) Charge for the year

The zakat charge consists of:

| | 2017 SR | 2016 SR |
|------------------------|------------------|-------------------|
| Provision for the year | 11,918,465 | 13,378,186 |
| Prior year adjustment | (9,156,597) | - |
| | <u>2,761,868</u> | <u>13,378,186</u> |

The provision is based on the following:

| | 2017 SR | 2016 SR |
|---|----------------------|----------------------|
| Equity | 529,650,051 | 530,500,000 |
| Opening provision and other adjustments | 61,908,142 | 51,293,938 |
| Book value of non-current assets | (1,078,388,330) | (877,193,424) |
| | <u>(486,830,137)</u> | <u>(295,399,486)</u> |
| Zakatable income for the year | <u>476,738,538</u> | <u>535,127,440</u> |
| Zakat base | <u>476,738,538</u> | <u>535,127,440</u> |

Bin Dawood Holding Company Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2017

9 ZAKAT (continued)

b) Movements in provision during the year:

The movement in the zakat provision for the year was as follows:

| | 2017 SR | 2016 SR |
|------------------------------|-------------------|-------------------|
| At the beginning of the year | 14,415,306 | 13,502,292 |
| Provided during the year | 2,761,868 | 13,378,186 |
| Paid during the year | (287,168) | (12,465,172) |
| At the end of the year | <u>16,890,006</u> | <u>14,415,306</u> |

c) Status of assessments

Parent Company

Bin Dawood Holding Company Limited - A Limited Liability Company:

The Parent Company has filed zakat declarations with the General Authority for Zakat and Tax (GAZT) for the period ended 31 December 2011 and for the years ended 31 December 2012 through 2016 and obtained zakat certificate. The assessments for the period ended 31 December 2011 and for the years ended 31 December 2012 through 2016 have not yet been raised by GAZT.

Subsidiaries

Bin Dawood Superstores Company - A Limited Liability Company:

The subsidiary has finalised its zakat assessments with GAZT for all years up to 2011. The subsidiary has filed zakat declarations for the years 2012 through 2015 and obtained zakat certificate. The assessments for the years 2012 through 2015 have not yet been raised by GAZT. The Parent Company has filed its consolidated zakat declaration for the year 2016 and obtained the zakat certificate.

Danube Company for Foodstuffs and Commodities - A Limited Liability Company:

The subsidiary has finalised its zakat assessments with GAZT for all years up to 2009.

During the previous year, GAZT raised assessments for the years 2010 through 2013 with an additional liability of SR 11.98 million. The subsidiary's management is considering to file an appeal against these assessments. The management is confident that their contention will prevail and expects a favorable outcome arising from the appeal. Accordingly, no provision in respect of SR 11.98 million is made in these consolidated financial statements.

The subsidiary has filed zakat declaration for the years 2014 and 2015 and obtained zakat certificate. The assessment for the year 2014 and 2015 has not been raised by GAZT. The Parent Company has filed its consolidated zakat declaration for the year 2016 and obtained the zakat certificate.

Danube Star for Bakeries and Marketing Company Limited:

The subsidiary has finalised its zakat assessments with GAZT for all years up to 2009. The subsidiary has filed zakat declarations for the years 2010 through 2015 and obtained zakat certificate. The assessments for the years 2010 through 2015 have not yet been raised by GAZT. The Parent Company has filed its consolidated zakat declaration for the year 2016 and obtained the zakat certificate.

Bin Dawood Holding Company Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2017

10 CAPITAL

As at 31 December 2016 and 31 December 2017, the capital of the Parent Company is divided into 53,000,000 shares of SR 10 each and distributed among the partners as follows:

| <i>Name of partners</i> | <i>Nationality</i> | <i>Holding</i> | <i>No. of shares</i> | <i>Amount SR</i> |
|---|--------------------|----------------|----------------------|--------------------|
| Akasiya Star Trading Company Limited | Saudi | 84.465% | 44,766,450 | 447,664,500 |
| Abdullah Bin Dawood Son's and Company Limited | Saudi | 8.535% | 4,523,550 | 45,235,500 |
| Commercial Growth Development Company Limited | Saudi | 7% | 3,710,000 | 37,100,000 |
| | | 100% | 53,000,000 | 530,000,000 |

11 STATUTORY RESERVE

In accordance with the Parent Company's Articles of Association, the Parent Company must set aside 10% of its net income in each year to a statutory reserve until the reserve equals 30% of the capital. The reserve is not available for distribution.

12 SELLING AND DISTRIBUTION EXPENSES

| | <i>2017 SR</i> | <i>2016 SR</i> |
|-------------------------|--------------------|--------------------|
| Employee costs | 334,449,297 | 253,282,849 |
| Rent | 278,044,354 | 229,848,701 |
| Depreciation (note 7) | 142,165,765 | 102,711,760 |
| Utilities | 96,269,105 | 77,521,543 |
| Packaging cost | 44,066,829 | 42,083,128 |
| Repairs and maintenance | 19,577,678 | 18,375,778 |
| Advertising | 8,996,301 | 12,814,780 |
| Others | 52,257,018 | 46,041,969 |
| | 975,826,347 | 782,680,508 |

13 GENERAL AND ADMINISTRATION EXPENSES

| | <i>2017 SR</i> | <i>2016 SR</i> |
|----------------------------------|--------------------|--------------------|
| Employee costs | 86,094,004 | 73,427,748 |
| Management remuneration (note 6) | 27,810,000 | 29,735,000 |
| Depreciation (note 7) | 7,555,791 | 6,999,480 |
| Rents | 4,905,524 | 4,854,802 |
| Insurance | 1,693,501 | 1,801,205 |
| Repairs and maintenance | 2,751,857 | 2,597,082 |
| Utilities | 1,256,624 | 1,231,531 |
| Directors' remuneration (note 6) | 400,000 | 400,000 |
| Others | 19,268,299 | 13,543,824 |
| | 151,735,600 | 134,590,672 |

14 GANDOLA INCOME

Gandola income mainly includes income from shelf rental, product display and shop rentals.

Bin Dawood Holding Company Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2017

15 OTHER INCOME

| | 2017 SR | 2016 SR |
|--|-------------------|-------------------|
| (Loss) / Gain on write-off and disposal of property and equipment, net | (1,090,529) | 71,143 |
| Early payment discount | 9,257,614 | 11,569,930 |
| Miscellaneous income | 6,236,333 | 17,949,250 |
| | <u>14,403,418</u> | <u>29,590,323</u> |

16 CONTINGENCIES AND COMMITMENTS

The Group has outstanding letters of credit to import goods amounting to SR 66.93 million at 31 December 2017 (2016: SR 46.06 million) and outstanding letters of guarantee amounting to SR 6.7 million at 31 December 2017 (2016: SR 24.37 million).

The Group has annual long term cancellable lease commitments totalling SR 300.9 million (2016: SR 274 million) relating to branch rentals for the periods ranging up to 25 years.

The Parent Company and its subsidiaries namely, Bin Dawood Superstores Company Limited (A Limited Liability Company), Danube Company for Foodstuffs and Commodities (A Limited Liability Company) and Danube Star for Bakeries and Marketing Company Limited have provided corporate guarantees amounting to SR 887.75 million (2016: SR 6.78 billion) to local banks in respect of banking facilities obtained by an affiliate of the Group.

17 RISK MANAGEMENT

Interest rate risk

Interest rate risk is the risk that the value of financial instruments or future profitability will fluctuate due to changes in the market interest rates. The Group is not exposed to interest rate risk as the Group does not have any interest bearing assets or liabilities as at 31 December 2017.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to customers by settling sales transactions in cash or through credit cards.

With respect to credit risk arising from the other financial assets of the Group, including bank balances and cash, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts as disclosed in the consolidated balance sheet.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuation in foreign exchange rates in normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyals, Euros and US Dollars during the year. As the Saudi Riyal is pegged to US Dollar, balances in US Dollars are not considered to represent significant currency risk. Accounts payable include an amount of SR 209 million (2016: SR 184 million) due in Euros.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The Group financial liabilities consist of accounts payable and accruals. All these financial liabilities are expected to be settled within 12 months of the balance sheet date and the Group expect to have adequate funds available to do so.

Bin Dawood Holding Company Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2017

18 KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of accounts receivable

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due.

Impairment of inventories

Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made of their net realizable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and an allowance applied according to the inventory type and the degree of ageing or obsolescence, based on expected selling prices.

Useful lives of property and equipment

The management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

19 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of bank balances and cash, and accounts receivable, and its financial liabilities consist of accounts payable and dividend payable. The fair values of financial instruments are not materially different from their carrying values.