**UNITED ELECTRONICS COMPANY**
(A SAUDI JOINT STOCK COMPANY)

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

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

**CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 2017**

## INDEPENDENT AUDITOR'S REPORT

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

**Report on the audit of the consolidated financial statements**

**Opinion**
We have audited the consolidated financial statements of United Electronics Company, a Saudi Joint Stock Company (the "Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

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

**Basis for Opinion**
We conducted our audit in accordance with International Standards on Auditing (ISAs) as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the 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.

**Key Audit Matters**
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter listed below, our description on how our audit have addressed this matter is set below:

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**INDEPENDENT AUDITOR'S REPORT** - *Continued*

**Key Audit Matters** - *Continued*

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">1- Revenue Recognition and Information Technology (IT) systems</td></tr>
<tr><td>As of December 31, 2017, the Group had recognized revenue of SR 4,210 million (2016: SR 3,757 million).<br><br>We consider revenue a key audit matter being the key business element for the operations of the Group. Additionally, a significant part of the Company's revenue is heavily reliant on IT systems with automated processes and controls over the capture, storage, extraction, and integration of information. A fundamental component of these processes and controls is ensuring appropriate user access, system integration, financial reporting and change management protocols and other related automated process controls exist, and are being adhered to. Hence, there is a risk that management may override these controls and processes as result of constant pressure on the Group to meet the expected sales targets which may result in misstatement of revenue.<br><br>Refer to note 3 to the consolidated financial statements for the significant accounting policy</td><td>We performed the following procedures in relation to revenue recognition:<br><br>• From the IT perspective:<br><br>• Focused our audit on those IT systems and controls that are significant for the Company's sales processes. As audit procedures over IT systems and controls require specific expertise, we involved IT specialists in our audit.<br><br>• Assessed and tested the design and operating effectiveness of the Company's IT controls over sales, including those over user access, system integration and change management as well as data reliability, data extraction, data interface, integration and financial reporting, in addition to other analytical and compliance control testing procedures over the revenue processes.<br><br>• Assessed the appropriateness of the group's revenue recognition policies in relation to the requirements of relevant accounting standards. Additionally, we assessed and reviewed the impact of the early adoption of IFRS 15 "Revenue from Contracts with Customers", on the various revenue of the Group including revenue streams from extended warranty and installment sales.<br>• Assessed the design and operating effectiveness of controls associated with the revenue function including sales modules, automated and manual controls and other related aspects;<br>• Perform detailed analytical review for the various elements of revenue / sales;<br>• Tested the controls implemented on installment sales and extended warranty services contracts sold during the year. Validated the amortization of extended warranty revenue by reviewing warranty services contacts and revenue has been recorded correctly. Review the adjustments made and basis for computation following the adoption of IFRS 15.</td></tr>
</table>

## INDEPENDENT AUDITOR'S REPORT - *Continued*

### Key Audit Matters - *Continued*

| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| ***2- Adoption of International Financial Reporting Standards (IFRS)*** | |
| For all years up to and including the year ended December 31, 2016, the Group has prepared and presented its audited consolidated financial statements in accordance with generally accepted accounting principles issued by SOCPA.<br><br>As a result of the regulatory requirements in the Kingdom of Saudi Arabia, for financial periods starting January 1, 2017, the Group has presented its financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA in this respect.<br><br>Accordingly, the accompanying consolidated financial statements for the year ended December 31, 2017, have been prepared in accordance with the requirements of IFRS and First-Time Adoption of International Financial Reporting Standards.<br><br>In compliance with these requirements, GAP analysis was performed to determine differences between the previous SOCPA framework and IFRS including the adjustments and disclosures required. Based on the analysis, the Group has assessed the impact of transitioning from SOCPA to IFRS and transition adjustments were accordingly made to the consolidated financial statements as at January 1, 2016 and December 31, 2016<br><br>We considered this as a key audit matter as the transitional adjustments due to the change in the financial reporting framework and its significant impact on the consolidated financial statements from a recognition, measurement and disclosure perspective had required additional focus during our audit.<br><br>Refer to note 29 to the consolidated financial statements for details of transition and reconciliation adjustments in this respect. | The Group have appointed an independent consultant for the transition to IFRSs where GAP analysis were made to identify changes in accounting policies and treatments, presentation and disclosures in the financial statements.<br><br>We performed the following procedures in respect of transition to IFRSs as endorsed in the Kingdom of Saudi Arabia:<br><br>• We had a meeting with the management to share comments on the report on IFRSs transition adjustments.<br><br>• Obtained an understanding of the GAP analysis performed by the independent consultant to identify all significant differences between previous reporting framework and IFRS as endorsed in the Kingdom of Saudi Arabia which can impact the Group's financial statements.<br><br>• Assessed the appropriateness of the implementation of IFRS, as endorsed in the Kingdom of Saudi Arabia, in accordance with provisions of IFRS 1 and management's decisions in this respect.<br><br>• Assessed the appropriateness of accounting policies adopted.<br><br>• Tested the transition adjustments by considering the GAP analysis, the underlying financial information and the computation of these adjustments.<br><br>• Assessed the appropriateness of disclosures made for the impact of transition from SOCPA to IFRS. |

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**INDEPENDENT AUDITOR'S REPORT** - *Continued*

**Key Audit Matters** - *Continued*

| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| ***3- Impairment of trade and other receivables and installment sales receivable*** | |
| As of December 31, 2017, the group had trade account receivables and installment receivables of SR 7.69 million and SR 152.33 million respectively, net of allowance for impairment of SR 1.72 million and SR 16.57 respectively.<br><br>Impairment allowance is a highly subjective area due to significant level of judgment applied by the management in the determination of cumulative impairment allowances as at the reporting date. Due to the materiality of the amounts involved and the related subjectivity associated with it, this is considered as a key audit risk.<br><br>Refer to note (3) to the consolidated financial statements for the significant accounting policy and note (4) for critical accounting estimates and judgements and note (7 and 8) for the related disclosures. | Our audit procedures in response to the significant risk associated with impairment of trade and other receivables and installment sales receivable covered assessing the appropriateness of the corresponding impairment allowances and the effectiveness of the management's control surrounding it as follows:<br><br>• Based on our understanding of the management's process and key controls, we tested the Group's control on the determination, review and monitoring of the impairment allowance.<br>• Based on our understanding of the processes and key controls, we focused on process for the identification of loss events and control over the impairment process, including the continuous re-assessment by management.<br>• We enquired management about the basis for policies adopted. We have performed walkthrough and testing of relevant key controls to determine whether they were designed, implemented and operated effectively throughout the year.<br>• Assessed the Group's policy for allowance for impairments and basis used in arriving to it.<br>• Obtained a schedule for the receivable ageing and re-assessed the allowance required as per the Group's adopted policy.<br>• Tested the IT controls relating to the system in use for the computation of the allowance for impairment. |

**INDEPENDENT AUDITOR'S REPORT** - *Continued*

**Key Audit Matters** - *Continued*

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">4- Inventory valuation</td></tr>
<tr><td>As at December 31, 2017, the Company held SR 883 million of inventories net of allowance for mark down and slow moving inventories.<br><br>As described in note (3-14), inventories are held at the lower of cost and net realizable value determined using the weighted average cost method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale and markdown. The valuation of inventory is reviewed by management on a regular basis. The determination of whether the inventory will be realized for a value less than cost requires management to exercise judgment and apply assumptions that are continuously re-assessed. Management undertakes the following procedures for determining the level of mark-down and slow moving allowances required:<br><br>- Use inventory ageing reports together with historical trends to estimate the likely future salability of slow and older inventory;<br>- For inventory, management apply a percentage based write down to inventory. The percentages are derived from historical levels of mark down;<br>- Perform line-by-line analysis of remaining inventory to ensure it is stated at the lower of cost and net realizable value and a specific mark down is recognized if required.<br><br>The relative nature of Group products inventories and its susceptibility to market changes, customers' demands and technological changes may cause significant impact on the value of these products. Consequently, the book value of inventory may be higher than the net realizable value of inventory.<br><br>We consider this matter as a key audit matter due to the level of significant judgement and assumptions used by management in determining the allowance for mark down and slow moving inventories</td><td>We performed the following procedures over the valuation of inventory:<br><br>• We reviewed the consistency of the accounting policy adopted by management;<br>• We reviewed and assessed the design, implementation and effectiveness of the Group's controls on the determination and assessment of the allowance for mark down and slow moving inventories;<br>• For sample of inventory items, re-performed the weighted average cost calculation;<br>• We tested that the ageing report used by management correctly aged inventory items by agreeing a sample of aged inventory items to the last recorded invoices;<br>• On a sample basis we tested the net realizable value of inventory item to recent selling prices;<br>• We reviewed the adopted policy for inventory valuations, mark-down and slow moving;<br>• We assessed the percentage mark-down applied to older inventory with reference to historic inventory mark-down, recoveries on slow-moving inventory, and<br>• We re-performed the calculation of the inventory mark-down and slow moving allowance.<br>• we tested the IT controls related to systems in use for the computation of inventory ageing.</td></tr>
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INDEPENDENT AUDITOR'S REPORT - *Continued*

**Other Information included in the group's 2017 annual report**
Management is responsible for the other information. The other information comprises the information included in the Company's annual report, other than the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the annual report, and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Company's By-laws and the applicable requirements of Company's regulations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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**INDEPENDENT AUDITOR'S REPORT - *Continued***

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

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

**Report on Other Legal and Regulatory Requirements**

Article (135) of the Companies Law requires the auditor to include in his report a reference as to whether any violation of the provisions of the Companies Law or the Company's By-laws has come to his attention. During the course of our audit of the consolidated financial statements, nothing came to our attention that indicate that the Company is not in compliance with the provisions of the Companies Regulations or the Company's By-laws.

**PKF Al-Bassam & Co.**
**Allied Accountants**

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ترخيص رقم
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Licence No.:
Allied Accountants

**Ibrahim A. Al Bassam**
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# UNITED ELECTRONICS COMPANY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT DECEMBER 31, 2017

| | Notes | **December 31, 2017 SR** | December 31, 2016 (Note 29) SR | January 1, 2016 (Note 29) SR |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property and equipment | **5** | **441,174,337** | 435,060,580 | 455,806,488 |
| Intangible assets | **6** | **39,275,607** | 30,218,776 | 24,682,689 |
| Deferred tax assets | | **235,299** | 837,390 | - |
| Trade and other receivables | **7** | **7,729,627** | 11,710,869 | 8,220,581 |
| Installment sales receivable – Noncurrent portion | **8** | **30,789,790** | 18,464,809 | 6,952,247 |
| | | **519,204,660** | 496,292,424 | 495,662,005 |
| **Current assets** | | | | |
| Inventories | **9** | **882,880,679** | 544,045,471 | 651,792,118 |
| Trade and other receivables | **7** | **51,407,477** | 43,079,237 | 68,168,712 |
| Installment sales receivable - Current portion | **8** | **121,541,923** | 62,571,082 | 18,111,592 |
| Cash and cash equivalents | **10** | **77,160,609** | 100,197,958 | 66,222,180 |
| | | **1,132,990,688** | 749,893,748 | 804,294,602 |
| **TOTAL ASSETS** | | **1,652,195,348** | 1,246,186,172 | 1,299,956,607 |
| **EQUITY AND LIABILITIES** | | | | |
| **EQUITY** | | | | |
| Share capital | **11** | **420,000,000** | 360,000,000 | 360,000,000 |
| Statutory reserve | **12** | **25,102,741** | 66,088,888 | 66,088,888 |
| Retained earnings | | **120,268,174** | 101,886,228 | 104,252,379 |
| Foreign currency translation reserve | | **(101,155)** | (104,641) | (65,938) |
| Actuarial reserve | | **813,163** | - | - |
| Total equity | | **566,082,923** | 527,870,475 | 530,275,329 |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Medium term loan - Murabaha finance – noncurrent portion | **13** | **-** | - | 10,000,000 |
| Deferred revenue from extended warranty program– noncurrent portion | **14** | **64,450,242** | 15,134,051 | 8,936,124 |
| Deferred revenue from sale and leaseback – noncurrent portion | **15** | **1,980,775** | 2,117,371 | 2,253,967 |
| Operating lease liability – non-current portion | **16** | **14,871,910** | 13,388,581 | 12,808,170 |
| Deferred tax liabilities | | **-** | - | 32,158 |
| End of service benefits | **17** | **56,517,424** | 51,824,772 | 45,916,000 |
| Finance lease – noncurrent portion | | **96,750** | - | - |
| | | **137,917,101** | 82,464,775 | 79,946,419 |
| **Current liabilities** | | | | |
| Trade and other payables | **18** | **694,669,308** | 621,418,681 | 653,586,948 |
| Deferred revenue from extended warranty program – Current portion | **14** | **46,578,052** | 9,685,452 | 12,022,839 |
| Deferred revenue from sale and leaseback – current portion | **15** | **136,596** | 136,596 | 136,596 |
| Operating lease liability– current portion | **16** | **1,396,475** | 1,002,191 | 610,583 |
| Medium term loan – Murabah finance – current portion | **13** | **200,000,000** | - | 20,000,000 |
| Zakat provision | **19** | **5,388,493** | 3,608,002 | 3,377,893 |
| Finance lease –current portion | | **26,400** | - | - |
| | | **948,195,324** | 635,850,922 | 689,734,859 |
| **Total liabilities** | | **1,086,112,425** | 718,315,697 | 769,681,278 |
| **TOTAL EQUITY AND LIABILITIES** | | **1,652,195,348** | 1,246,186,172 | 1,299,956,607 |

The consolidated financial statements were approved and authorized for issue by the board of directors, on behalf of the shareholders and were signed on its behalf on February 27, 2018

**Chief Financial Officer** **Chief Executive Officer** **Chairman**

The accompanying notes 1 through 34 form an integral part of these Consolidated financial statement

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

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017

| | Notes | For the year ended December 31, 2017 | December 31, 2016 (Note 29) |
|---|---|---|---|
| | | **SR** | SR |
| Revenue, net | **20,26** | **4,209,780,459** | 3,756,667,151 |
| Cost of revenue | **20, 26** | **(3,499,452,093)** | (3,167,373,089) |
| **Gross profit** | | **710,328,366** | 589,294,062 |
| Selling, marketing and distribution expenses | **21** | **(443,519,938)** | (457,953,905) |
| Administrative expenses | **22** | **(110,509,950)** | (107,828,560) |
| Other expenses | **23** | **(10,030,227)** | (6,260,369) |
| Impairment of property plant and equipment | | **-** | (15,619,817) |
| Other income | **24** | **1,680,684** | 428,847 |
| **Operating profit** | | **147,948,935** | 2,060,258 |
| Finance cost | **25** | **(2,508,219)** | (1,787,046) |
| Zakat | **19** | **(4,700,096)** | (3,506,916) |
| Deferred tax (expense) income | | **(602,091)** | 869,548 |
| **Profit (loss) for the year** | | **140,138,529** | (2,364,156) |
| **OTHER COMPREHENSIVE INCOME** | | | |
| ***Item that will not be reclassified subsequently to statement of profit or loss:*** | | | |
| Re-measurement of end of service benefit obligation | | **813,163** | - |
| ***Item that may be reclassified subsequently to statement of profit or loss:*** | | | |
| Exchange differences on translation of foreign operations | | **3,486** | (38,703) |
| **Total comprehensive income (loss) for the year** | | **140,955,178** | (2,402,859) |
| **Profit (loss) for the year attributable to:** | | | |
| Shareholders of the Company | | **140,138,529** | (2,364,156) |
| **Total comprehensive income (loss) for the year attributable to :** | | | |
| Shareholders of the Company | | **140,955,178** | (2,402,859) |
| **Earnings per share (SR) based on profit (loss) for the year attributable to shareholders of the company** | | | |
| Basic and diluted income (loss) per share (Saudi Riyal per share) | **27** | **3.34** | (0.06) |

The consolidated financial statements were approved and authorized for issue by the board of directors, on behalf of the shareholders and were signed on its behalf on February 27, 2018

| Chief Financial Officer | Chief Executive Officer | Chairman |
|---|---|---|

The accompanying notes 1 through 34 form an integral part of these Consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED DECEMBER 31, 2017**

| | Share Capital | Statutory reserve | Retained earnings | Foreign currency translation reserve | Actuarial reserves | Equity attributable to shareholders of the Company | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|
| | SR | SR | SR | SR | | SR | SR | SR |
| Balance as at January 1, 2016 - As per SOCPA | 360,000,000 | 66,088,888 | 105,596,980 | (65,938) | - | 531,619,930 | 1,995 | 531,621,925 |
| Other adjustments | - | - | 1,995 | - | - | 1,995 | (1,995) | - |
| Impact of adoption of International Financial Reporting Standards (IFRS)-Note 29 | - | - | (1,346,596) | - | - | (1,346,596) | - | (1,346,596) |
| Balance as at January 1, 2016 – As per IFRS | 360,000,000 | 66,088,888 | 104,252,379 | (65,938) | - | 530,275,329 | - | 530,275,329 |
| Net loss for the year | - | - | (2,364,156) | - | - | (2,364,156) | - | (2,364,156) |
| Other adjustments | - | - | (1,995) | - | - | (1,995) | - | (1,995) |
| Other comprehensive income | - | - | - | (38,703) | - | (38,703) | - | (38,703) |
| Balance at December 31, 2016 | 360,000,000 | 66,088,888 | 101,886,228 | (104,641) | - | 527,870,475 | - | 527,870,475 |
| Impact of early adoption of IFRS 15 | **-** | **-** | **(71,242,730)** | **-** | **-** | **(71,242,730)** | **-** | **(71,242,730)** |
| Balance as at January 1, 2017 (Adjusted) | 360,000,000 | 66,088,888 | **30,643,498** | **(104,641)** | **-** | **456,627,745** | **-** | **456,627,745** |
| **Net income for the year** | **-** | - | **140,138,529** | **-** | **-** | **140,138,529** | **-** | **140,138,529** |
| **Dividends** | - | - | **(31,500,000)** | - | **-** | **(31,500,000)** | - | **(31,500,000)** |
| **Transfer to statutory reserve** | **-** | **14,013,853** | **(14,013,853)** | **-** | **-** | **-** | **-** | **-** |
| **Other comprehensive income** | **-** | **-** | **-** | **3,486** | **-** | **3,486** | - | **3,486** |
| **Increase in Share capital** | **60,000,000** | **(55,000,000)** | **(5,000,000)** | **-** | **-** | **-** | - | **-** |
| **Actuarial gain** | **-** | **-** | **-** | **-** | **813,163** | **813,163** | - | **813,163** |
| **Balance as at December 31, 2017** | **420,000,000** | **25,102,741** | **120,268,174** | **(101,155)** | **813,163** | **566,082,923** | **-** | **566,082,923** |

The consolidated financial statements were approved and authorized for issue by the board of directors, on behalf of the shareholders and were signed on its behalf on February 27, 2018

**Chief Financial Officer** **Chief Executive Officer** **Chairman**

The accompanying notes 1 through 34 form an integral of these Consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2017**

| | **December 31, 2017** | December 31, 2016 (Note 29) |
|---|---|---|
| | **SR** | SR |
| **Cash flows from operating activities:** | | |
| Net profit (loss) for the year | **140,138,529** | (2,364,156) |
| *Adjustments for:* | | |
| Depreciation of property and equipment | **39,186,363** | 39,992,917 |
| Amortization of intangible assets | **5,070,012** | 3,497,154 |
| Loss from disposal of fixed assets | **368,629** | 130,552 |
| Deferred revenue on sale and leaseback | **(136,596)** | (136,596) |
| Deferred revenue from additional services program | **14,966,061** | 3,860,540 |
| Finance cost | **2,508,219** | 1,787,046 |
| Impairment on fixed asset | **-** | 15,619,817 |
| Impairment recognized on installment sales receivable, net | **6,191,070** | 8,990,855 |
| Impairment recognized on trade and other receivables, net | **133,849** | 202,778 |
| Zakat expense | **4,700,096** | 3,506,916 |
| End of service benefits | **10,695,797** | 10,098,589 |
| Operating lease liability | **1,877,613** | 972,019 |
| Deferred tax | **602,091** | (869,548) |
| | **226,301,733** | 85,288,883 |
| **Changes in:** | | |
| Trade and other receivables | **(4,480,847)** | 21,396,409 |
| Installment sales receivables | **(77,486,892)** | (64,962,907) |
| Inventories | **(338,835,208)** | 107,746,647 |
| Trade and other payables | **73,250,627** | (32,168,267) |
| ***Cash (used in) from operations*** | **(121,250,587)** | 117,300,765 |
| End of service indemnity paid | **(5,189,982)** | (4,189,817) |
| Finance cost paid | **(2,508,219)** | (1,787,046) |
| Zakat paid | **(2,919,605)** | (3,276,807) |
| **Net cash (used in) from operating activities** | **(131,868,393)** | 108,047,095 |
| **Cash flows from investing activities** | | |
| Additions to property and equipment | **(46,145,825)** | (35,974,521) |
| Additions to intangible assets | **(13,545,680)** | (9,033,241) |
| Proceeds from disposal of property and equipment | **24,913** | 977,143 |
| Acquisition of NCI | **-** | (1,995) |
| **Net cash used in investing activities** | **(59,666,592)** | (44,032,614) |
| **Cash flows from financing activities:** | | |
| Drawdown of Murabaha loan | **600,000,000** | 335,000,000 |
| Repayment of Murabaha loan | **(400,000,000)** | (365,000,000) |
| Dividend paid | **(31,500,000)** | - |
| Repayment of finance lease | **(5,850)** | - |
| **Net cash generated from (used in) financing activities** | **168,494,150** | (30,000,000) |

**CONSOLIDATED STATEMENT OF CASH FLOWS – (*Continued)***
**FOR THE YEAR ENDED DECEMBER 31, 2017**

| | **December 31, 2017** | December 31, 2016 (Note 29) |
|---|---|---|
| | **SR** | SR |
| **Net change in cash and cash equivalents** | **(23,040,835)** | 34,014,481 |
| Effects of foreign exchange translation on cash and cash equivalents | **3,486** | (38,703) |
| Cash and cash equivalent at the beginning of the year | **100,197,958** | 66,222,180 |
| **Cash and cash equivalents at end of the year** | **77,160,609** | 100,197,958 |
| | | |
| **Non-cash transaction :** | | |
| Impact of early adoption of IFRS 15 on deferred revenue from extended warranty program | **(71,242,730)** | - |
| Finance lease | **129,000** | - |

The consolidated financial statements were approved and authorized for issue by the board of directors, on behalf of the shareholders and were signed on its behalf on February 27, 2018.

| **Chief Financial Officer** | **Chief Executive Officer** | **Chairman** |
|---|---|---|

The accompanying notes 1 through 34 form an integral part of these consolidated financial statements.

## 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

The address of the Company’s head office is as follows:
- United Electronics Company – P.O. Box 76688 Al Khobar 31952, Kingdom of Saudi Arabia.

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

### 1.1 Structure of the group

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

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

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

1- United Electronics Company-Extra S.P.C., is registered in Bahrain on 15 Dhul-Qa’da l432H (corresponding to October 13, 2011). The principal activities of this subsidiary are importing, exporting and trading of electrical and electronics devices and their spare parts, computers and accessories, selling video and audio media materials, importing and exporting computer software and hardware, importing and exporting electronic games, providing maintenance for electric devices in addition to management and development of personal properties.

2- United Electronics Company-Extra L.L.C., is registered in Oman on 15 Jumada I 1433H (corresponding to April 7, 2012), the principal activities of this subsidiary is retail trading of computer, non-customized software, household appliances (radio, television, refrigerators, crockery etc.), toys, games, satellites, and phones.

3- United Computers Maintenance and Electronics Company Limited, is Saudi limited liability company incorporated on 10 Rajab 1431H (corresponding to September 22, 2010). The principal activities of this subsidiary are maintenance and repair and providing warranty for electronics, digital and electrical devices, home appliances and computers and wholesale trading of spare parts in electrical and digital devices, photocopy and fax machines, telephones, cell phones, video and electric games, digital pocket assistants, printers and computer-related devices.

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

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES** (Continued)

**1.1 Structure of the group** (Continued)

4- As at December 31, 2017, The Group had a total of 43 branches (December 31, 2016: 42 branches) out of which 40 operational branches are in the Kingdom of Saudi Arabia (December 31, 2016: 39 branches)

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

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

These Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants (SOCPA).

For years up to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

For financial periods starting January 1, 2017, and in accordance with the regulations applicable in the Kingdom of Saudi Arabia, the Group has presented its financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA in this respect. The accompanying financial statements are the first annual financial statements prepared in accordance with IFRS.

The accompanying consolidated financial statements have been prepared in accordance with the requirement of IFRS, First-Time Adoption of International Financial Reporting Standards. The effects of IFRS adoption on the financial statements as at December 31, 2016 and January 1, 2016 are disclosed in note (30) to the accompanying financial statements.

The Capital Market Authority (CMA) has decided that the options to use the revaluation model for property, plant, and equipment and intangible assets in IAS 16 and IAS 38 and the option to use the fair value model for investment property in IAS 40 will not be available for the first three years' post-transition from 2017 to 2019 for listed companies. Upon completion of the aforementioned period, the CMA will study whether to continue to require the cost model or whether to allow the application of the fair value/revaluation models. Under this circumstance, the Group cannot avail these options for the current financial year.

IFRS 1 allows first-time adopters certain exemptions upon transition from the retrospective application of certain requirements under IFRS. IFRS 1 Prohibits retrospective application of IFRS with respect to accounting Estimates", and also for "derecognition of financial assets and liabilities", "Hedge accounting", "Non-controlling interest", "classification and measurement of financial assets", "impairment of financial assets", "embedded derivatives" and "government loans". The Group has applied relevant IFRSs on these transactions prospectively from the transition date.

No optional exemption has been claimed by the Group.

### 2.2 Preparation of the consolidated financial statements

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

## 2. BASIS OF PREPARATION (Continued)

### 2.2 Preparation of the consolidated financial statements (Continued)

The preparation of financial statements in conformity with IFRS required management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts in the financial statements. These areas that are significant to the financial statements are disclosed in note 4.

### 2.3 Standards issued and applied effective January 1, 2017

The following new and revised standards and interpretations have been adopted in the current year. The adoption of these standards have no material impact on the amounts reported in the accompanying financial statements. Amendments to;

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| **IAS 7 Disclosure Initiative (Amendments to IAS 7)**<br>The amendments require the disclosures regarding changes. This relates to disclosure initiative regarding the changes in liabilities arising from cash flows to help users of Financial Statements to evaluate changes in liabilities arising from financing activities, | January 1, 2017 |
| **IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)**<br>The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. | January 1, 2017 |

## 2. BASIS OF PREPARATION (Continued)

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

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

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| **IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014)**<br>IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.<br><br>A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement.<br><br>The standard contains requirements in the following areas:<br><br>**Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.<br><br>**Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.<br><br>**Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.<br><br>**Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39. | January 1, 2018 |
| **Amendments to IFRS 4 Insurance Contracts:** Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard. | January 1, 2018 |

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

| **New and revised IFRSs** | **Effective for annual periods beginning on or after** |
|---|---|
| **Amendments to IAS 40 Investment Property:** Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive. | January 1, 2018 |
| **Amendments to IFRS 7 Financial Instruments:** Disclosures relating to disclosures about the initial application of IFRS 9. | When IFRS 9 is first applied |
| **IFRS 7 Financial Instruments:** Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9. | |
| **IFRS 15 Revenue from Contracts with Customers** | January 1, 2018 |

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

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

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| **Amendment to standard IFRS 2 – Classification and Measurement of Share-based Payment Transactions** | January 1, 2018 |
| These amendments relate to the following areas: • the accounting for the effects of vesting conditions on cash-settled share-based payment transactions; • the classification of share-based payment transactions with net settlement features for withholding tax obligations; and • the accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled. | |
| The amendments apply prospectively to annual periods beginning on or after January 1, 2018, with specific transitional requirements. The amendments may be applied retrospectively only if it is possible to do so without using hindsight. Early application is permitted. The Group is currently assessing the precise impact of this new standard. | |
| **IFRS 16 Leases** | January 1, 2019 |
| IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. | |
| **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011)** relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. | January 1, 2018 |
| **IFRIC 22 Foreign Currency Transactions and Advance Consideration** | January 1, 2018 |
| The interpretation addresses foreign currency transactions or parts of transactions where:<br>• there is consideration that is denominated or priced in a foreign currency;<br>• the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and<br>• the prepayment asset or deferred income liability is non-monetary | |

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

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Management anticipates that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2018. As of December 31, 2017, the group is in the process of completing its evaluation of the impact of IFRS 9 on its financial statements both from a classification and measurement perspective and from an impairment perspective, On January 1, 2017, the group early adopted IFRS 15 – Revenue from contracts with customer. The application of IFRS 15 under the modified approach resulted in an adjustment to the opening retained earnings as at January 1, 2017, the date by which the management has adopted the standard, by SR 71,242,730 on account of changes in revenue recognition on additional service program (extended warranty) and additional disclosure was made with respect to "deferred revenue from additional services program" and revenue recognition policies. IFRS 16 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2019. The application of IFRS 16 is effective January 1, 2019 and may have a significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of its leases. However, it is not practicable at this stage to provide a reasonable estimate of effects of the application of IFRS 16 until the Group performs a detailed review.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies applied by the Group:

### 3.1 Basis of consolidation

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

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

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

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

- the size of the Company’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

- potential voting rights held by the Company, other vote holders or other parties;

- rights arising from other contractual arrangements; and

- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.

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

Consolidated and each component of other comprehensive income are attributed to the owners of the Company. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company.

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

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

#### 3.1.1 Changes in the Group’s ownership interests in existing subsidiaries

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognized in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.1.1 Changes in the Group's ownership interests in existing subsidiaries (continued)

liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified Consolidated statement of profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

### 3.2 Revenue recognition

Revenue is recognized as control of an asset is passed, either over time or at a point in time. Control of an asset is defined as the ability to direct the use of and substantially all the benefit from an asset.

### 3.2.1 Sale of goods

Revenue is recognized upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which entity expects to be entitled in exchange for those goods or services. Revenue is recognized when the following steps are met:

i. A sale contact is identified with a customer. Such contract does not have to be written to considered identified.
ii. The existence of a performance obligation.
iii. A transaction price is determined.
iv. Allocation of the transaction price to the performance obligation.
v. Recognition of revenue upon satisfaction of performance obligation.

In assessing these steps, management considers the followings:

- Approval of both parties (buyer and seller) on the sale with each party rights in relation to these goods and services to be transferred under the sale. Payment terms are also considered to ensure the contract has a commercial substance and it is probable that the consideration under the sale of these goods and services will be collected.

- Identification of the distinct goods or service promised under the contract. These distinct goods and service, are referred to as performance obligation. In considering whether these goods and services are distinct, management assess whether these goods or services can provide benefit on its own and the Group's promise to transfer these goods and services to the customer are separately identified. All the Group sales are considered to be distinct.

- The consideration to which the Group expects to be entitled in exchange for transfer of these goods and services. All the Group's sale has fixed consideration.

- Allocation of the transaction price to goods or services under the contract.

Satisfaction of performance obligation.

### 3.2.2 Revenue from extended warranty program

The Group provides extended warranty program to its customers, where the customer has the option to purchase the warranty. The contract is separately priced or negotiated as a distinct service, which considered as identifiable revenue component. The Group accounts for the warranty as a separate performance obligation service on the base of the length of the warranty coverage period and the nature of the tasks that the entity promises to perform. The Group defers the consideration received as a liability, which is later derecognized and revenue is accordingly recognized over the service agreement period.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2.3 Installment sales

In determining the transaction price, the group adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed with the customer provides the customer or the group with a significant benefit of financing the transferred goods or services to the customer. In those circumstances, which is the case for instalment sales which is normally over more than one-year period, the agreement with the customer contains a significant financing component. The Group adjusts the promised amount of consideration for the significant financing component to recognize revenue at an amount that reflects the cash price goods (i.e. the cash selling price). The Group considers all relevant facts and circumstances in assessing whether a contract contains a financing component and whether that financing component is significant to the contract, which include the following:

A- the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services; and
B- the combined effect of both of the following:

 (i) the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services; and
 (ii) the prevailing interest rates in the relevant market.

The Group uses the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. That rate used reflects the credit characteristics of the party receiving financing in the contract, as well as any collaterals including goods transferred in the contract to the customer. The Group determines that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the customer would pay in cash for the goods or services when they transfer to the customer. After contract inception, The Group does not update the discount rate for changes in interest rates or other circumstances (ex. changes in the assessment of the customer’s credit risk).

### 3.3 Expenses

Distribution expenses principally comprise of costs incurred in the distribution and delivery of the Group's products. All other expenses, other than cost of sales, are classified as administrative expenses.

Marketing expenses principally comprise of costs incurred in marketing and advertising the Group's products and services.

Administrative expenses include direct and indirect costs not specifically part of cost of revenue as required under generally accepted accounting principles. Allocations between distribution, marketing and administrative expenses and cost of revenue, when required, are made on a consistent basis.

### 3.4 Earnings per share

The Group presents basic earnings per share data for its profit. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

### 3.5 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### 3.5.1 The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.5.2 The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### 3.6 Foreign currency translations

### 3.6.1 Presentation currency

The accompanying Consolidated financial statements are presented in Saudi Riyals which is the functional currency and presentation currency of the parent company. Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the group entity operates (the functional currency). The group entities primarily operate in Bahrain and Oman.

### 3.6.2 Transaction and balances

Transactions denominated in currencies other than the entity’s functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of each reporting period are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences on monetary items are recognized in the Consolidated statement of profit or loss in the period in which they arise except for:

• exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to Consolidated statement of profit or loss on repayment of the monetary items.

On the disposal of a foreign operation (i.e. a disposal of the Group’s entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to statement of profit or loss. In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in the statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to statement of profit or loss.

### 3.6.3 Group entities

The results and financial position of foreign subsidiaries having reporting currencies other than the presentation currency of the parent company, are translated into functional currency as follows:

(i) Assets and liabilities for each reporting period presented are translated at the closing exchange rates prevailing at the end of reporting period.

(ii) Income and expenses from each reporting period are translated at average exchange rates and;

(iii) Components of the equity accounts are translated at the exchange rates in effect of the dates of the related items originated. Cumulative adjustments resulting from the translations are reported in other comprehensive income and are reported in a separate component of equity as “Currency translation differences”.

## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.7 Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are 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 such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in Consolidated statement of profit or loss in the period in which they are incurred.

### 3.8 Employee benefits

#### 3.8.1 Employee defined benefit liabilities

The end-of-service indemnity provision is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Re-measurements, comprising actuarial gains and losses, are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Re-measurements recognized in other comprehensive income are reflected immediately in retained earnings and will not be reclassified to Consolidated statement of profit or loss in subsequent periods. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in Consolidated statement of profit or loss as past service costs. Interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- interest expense; and
- re-measurement

The Group presents the first two components of defined benefit costs in Consolidated statement of profit or loss in the line item 'Administration expenses'.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

#### 3.8.2 Short-term and other long-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

### 3.9 Zakat and income tax

#### 3.9.1 Zakat

The company is subject to the regulations of the General Authority of Zakat & Tax (“GAZT”) in the kingdom of Saudi Arabia. Moreover, the subsidiaries are subject to the relevant laws relating to income tax in the countries where they conduct their activities. Zakat is calculated on accrual basis. Zakat is calculated on the higher of zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.9 Zakat and income tax (Continued)

#### 3.9.2 Current income tax

The Group applies IAS 12 Income Taxes in accounting for taxes on income. Income tax is applicable to one of the subsidiary only. The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before zakat and income tax' as reported in the Consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### 3.9.3 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with accounting and tax depreciation on property and equipment, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with accumulated tax losses only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### 3.10 Segmental reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Chief Executive Officer (CEO) and Board of Directors (BOD) to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the BOD and CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items compose mainly corporate expenses and related assets/liabilities (primarily the Company's headquarters). Head office expenses, research and development costs and related assets/liabilities, some goodwill and intangible assets and income tax assets and liabilities.

Because the management views the whole activates of the company as one operating segment, reporting is provided by geographical segment only.

## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.11 Property and equipment

Property and equipment are stated at their cost less accumulated depreciation and accumulated impairment losses.

Properties in the course of construction are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property and equipment (except freehold land and building under construction) are depreciated over its useful lives using the straight line method.

The estimated useful lives of assets are as follows:

| Item | Estimated useful lives/Years |
|---|---|
| Building and leasehold improvements | 10-33 years |
| Furniture, fixtures and office equipment | 4-10 years |
| Vehicles | 5 years |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in statement of profit or loss.

Capital work in progress represents the accumulated costs incurred by the group in relation to the construction of its building and structures in the development stage. Cost incurred are initially charged to the capital work in progress then these costs are transferred to property and equipment when the construction of these facilities are completed. Finance costs on borrowings attributable to the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

### 3.12 Intangible assets

Intangible assets comprise of Enterprise Resource Planning (ERP) and E-Commerce software. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives of 10 and 5 years respectively. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

#### 3.12.1 De-recognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in Consolidated statement of profit or loss when the asset is derecognized.

## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.13 Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in statement of profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in statement of profit or loss.

### 3.14 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average cost basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale and markdown. A provision is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified during the inventory count. Provision for slow moving and obsolete inventories is assessed periodically by management for each inventory category as part of its ongoing financial reporting review.

### 3.15 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.16 Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through statement of profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value are recognized immediately in statement of profit or loss. Financial assets are mainly classified under: ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

### 3.17 Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

### 3.18 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

### 3.19 Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.19 Impairment of financial assets (continued)

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in statement of profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through Consolidated statement of profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

### 3.20 De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in statement of profit or loss.

On de-recognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in statement of profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

### 3.21 Financial liabilities and equity instruments

#### 3.21.1 Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### 3.21.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.21.2 Equity instruments (continued)

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in Consolidated statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

### 3.21.3 Financial liabilities

Financial liabilities (including borrowings and trade and other payables) are initially and subsequently measured at amortized cost using the effective interest method.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in statement of profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

### 3.22 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held with the bank, all of which have maturities of 90 days or less and are available for use by the Group unless otherwise stated.

### 3.23 Sale and leaseback

Sale and leaseback transactions are recognized independent of the lease transactions.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term.

If the related leaseback is an operating lease, then following accounting policies are followed:

• if the sale price is equal to the fair value, there has, in effect, been a normal sale transaction and any profit or loss on sale is recognized immediately;

• if the sale price is above the fair value:

> the difference between fair value and carrying amount is recognized immediately; but

> the excess of proceeds over fair value is deferred and amortized over the period for which the asset is expected

• if the sale price is below the fair value, the difference between sale price and carrying amount is recognized immediately except that, if a loss arising is compensated by future rent at below market price, it is deferred and amortized in proportion to the rent payments over the period for which the asset is expected to be used.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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

### 4.1 Impairment of trade and other receivables and installment sales receivable

An estimate of the collectible amount of accounts receivable and installment sales 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 a provision applied according to the length of time past due, based on historical recovery rates.

At the reporting date gross trade receivables were SR 9.40 million with SR 1.72 million being provided for as an impairment. Installment sale receivable were SR 168.90 million (gross value) with SR 16.57 million being provided for as an impairment. Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in statement of profit or loss.

### 4.2 Impairment of inventories

Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete or subject to technological changes, an estimate is made of their net realizable value. Factors considered in determination of markdowns include current and anticipated demand, customer preferences and age of inventories as well as seasonal trends. For individually significant amounts this estimation is performed on an individual basis. Items which are not individually significant, but which are old or obsolete, are assessed collectively and a markdown provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

### 4.3 Impairment of property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying 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. No impairment loss had been recognized as at December 31, 2017.

### 4.4 Useful lives and residual values of property and equipment and intangible assets

The Group's management estimates the useful lives of its property and equipment and intangible assets for the purpose of calculating depreciation and amortization respectively. These estimates are determined after considering the expected usage of the asset or physical wear and tear for useful lives. Residual values are based on experience and observable data where available.

### 4.5 Employee end of service benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using various assumptions that may differ from actual developments in future. The assumptions used include the discount rate, future salary increases, mortality rates and future pension increases. Changes in these assumptions will impact the carrying amount of the pension obligation.

The Group determines the appropriate discount rate at each reporting date. In determining the appropriate discount rate, management considers the interest rates of corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the expected term of the related pension obligation.

Refer to note 17 for further disclosure of the key sources of estimation uncertainty relating to the retirement benefit obligation.

## 5. PROPERTY AND EQUIPMENT

The movement of the property and equipment for the year ended December 31, 2016 is as follows:

| | Land | Buildings and leasehold improvement | Furniture, fixtures and office equipment | Motor vehicles | Capital work in progress | Total |
|---|---|---|---|---|---|---|
| | SR | SR | SR | SR | SR | SR |
| **Cost:** | | | | | | |
| Balance at 1 January 2016 | 101,547,669 | 318,004,565 | 215,193,181 | 23,881,596 | 16,500,287 | 675,127,298 |
| Additions during the year | - | 3,062,137 | 6,543,900 | 1,970,180 | 24,398,304 | 35,974,521 |
| Disposals during the year | - | (677,955) | (2,204,331) | (1,032,820) | - | (3,915,106) |
| Transfers of capital work in progress | - | 14,926,285 | 3,820,329 | 104,784 | (18,851,398) | - |
| Impairment during the year | - | (17,294,687) | (3,633,863) | (40,958) | - | (20,969,508) |
| Balance at 31 December 2016 | 101,547,669 | 318,020,345 | 219,719,216 | 24,882,782 | 22,047,193 | 686,217,205 |
| **Accumulated Depreciation:** | | | | | | |
| Balance at 1 January 2016 | - | 67,457,637 | 138,175,098 | 13,688,075 | - | 219,320,810 |
| Depreciation charge for the year | - | 13,836,119 | 23,293,836 | 2,862,962 | - | 39,992,917 |
| Disposals | - | (41,355) | (1,797,885) | (968,171) | - | (2,807,411) |
| Impairment | - | (2,824,005) | (2,493,096) | (32,590) | - | (5,349,691) |
| Balance at 31 December 2016 | - | 78,428,396 | 157,177,953 | 15,550,276 | - | 251,156,625 |
| **Net Book Value:** | | | | | | |
| At 31 December 2016 | 101,547,669 | 239,591,949 | 62,541,263 | 9,332,506 | 22,047,193 | 435,060,580 |
| At 31 December 2015 | 101,547,669 | 250,546,928 | 77,018,083 | 10,193,521 | 16,500,287 | 455,806,488 |

## 5. PROPERTY AND EQUIPMENT (Continued)

The movement of the property and equipment for the year ended December 31, 2017 is as follows:

| | Land | Buildings and leasehold improvement | Furniture, fixtures and office equipment | Motor vehicles | Capital work in progress | Total |
|---|---|---|---|---|---|---|
| | SR | SR | SR | SR | SR | SR |
| **Cost:** | | | | | | |
| Balance at 1 January 2017 | 101,547,669 | 318,020,345 | 219,719,216 | 24,882,782 | 22,047,193 | 686,217,205 |
| Additions during the year | **-** | **1,356,160** | **10,022,536** | **656,416** | **34,239,713** | **46,274,825** |
| Transfers of capital work in progress | **-** | **35,443,499** | **2,077,932** | **390,960** | **(37,912,391)** | **-** |
| Transfers | **-** | **(1,571,529)** | **(471,227)** | **90,409** | **-** | **(1,952,347)** |
| Disposals | **-** | **(357,623)** | **(422,543)** | **(93,000)** | **-** | **(873,166)** |
| Balance at 31 December 2017 | **101,547,669** | **352,890,852** | **230,925,914** | **25,927,567** | **18,374,515** | **729,666,517** |
| **Accumulated Depreciation:** | | | | | | |
| Balance at 1 January 2017 | - | 78,428,396 | 157,177,953 | 15,550,276 | - | 251,156,625 |
| Depreciation charge for the year | - | **16,409,260** | **20,165,863** | **2,611,240** | **-** | **39,186,363** |
| Transfers | - | **(287,196)** | **(1,159,683)** | **75,695** | **-** | **(1,371,184)** |
| Disposals | - | **(67,478)** | **(330,097)** | **(82,049)** | **-** | **(479,624)** |
| Balance at 31 December 2017 | **-** | **94,482,982** | **175,854,036** | **18,155,162** | **-** | **288,492,180** |
| **Net Book Value:** | | | | | | |
| **At 31 December 2017** | **101,547,669** | **258,407,870** | **55,071,878** | **7,772,405** | **18,374,515** | **441,174,337** |
| At 31 December 2016 | 101,547,669 | 239,591,949 | 62,541,263 | 9,332,506 | 22,047,193 | 435,060,580 |

## 5. PROPERTY AND EQUIPMENT (Continued)

Depreciation for the year has been allocated as under:

| | **December 31, 2017 SR** | December 31, 2016 SR |
|---|---|---|
| Selling, marketing and distribution expenses (Note no. 21) | 35,464,927 | 35,694,177 |
| Administrative expenses (Note no. 22) | 3,721,436 | 4,298,740 |
| | 39,186,363 | 39,992,917 |

Property and equipment include the following amounts where the Group is a lessee under a capital lease:

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Cost - capitalized finance leases | 129,000 | - | - |
| Accumulated depreciation | (8,000) | - | - |
| **Net book value** | 121,000 | - | - |

## 6. INTANGIBLE ASSETS

The movement of intangible assets is as follows:

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Cost | **70,582,035** | 55,084,008 | 46,050,767 |
| Accumulated amortization | **(31,306,428)** | (24,865,232) | (21,368,078) |
| Amortized value | **39,275,607** | 30,218,776 | 24,682,689 |
| **Reconciliation of amortized value** | | | |
| Opening balance | **30,218,776** | 24,682,689 | 21,149,156 |
| Addition | **13,545,680** | 9,033,241 | 7,922,993 |
| Amortization | **(5,070,012)** | (3,497,154) | (4,389,460) |
| Transfer | **581,163** | - | - |
| | **39,275,607** | 30,218,776 | 24,682,689 |

## 7. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise of the following:

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Trade receivables | **9,405,512** | 5,419,994 | 15,048,546 |
| Less: impairment of trade receivables | **(1,720,417)** | (1,586,568) | (1,394,511) |
| Net trade receivables | **7,685,095** | 3,833,426 | 13,654,035 |
| Prepaid rent | **27,603,718** | 30,137,985 | 31,538,371 |
| Employee receivables | **6,996,858** | 6,461,575 | 8,356,836 |
| Advances to suppliers | **1,241,061** | 1,470,734 | 2,657,790 |
| Prepaid insurance | **2,739,049** | 3,564,578 | 3,453,952 |
| Claim Receivable and refundable deposits | **1,590,638** | 1,838,927 | 1,788,927 |
| Prepaid government and recruitment charges | **3,329,353** | 3,467,018 | 7,658,132 |
| Prepaid marketing and license fee | **1,189,669** | 1,264,979 | 1,195,376 |
| Other debit balance | **7,201,905** | 3,468,389 | 6,487,374 |
| Less: allowance for impairment | **(440,242)** | (717,505) | (401,500) |
| | **59,137,104** | 54,790,106 | 76,389,293 |
| **Less: non-current portion** | | | |
| Prepaid rent | **(6,083,776)** | (9,798,711) | (6,595,844) |
| Employees receivable | **(1,645,851)** | (1,912,158) | (1,624,737) |
| **Total non-current portion** | **(7,729,627)** | (11,710,869) | (8,220,581) |
| **Total current portion, net** | **51,407,477** | 43,079,237 | 68,168,712 |

Other debit balance includes prepaid LC charges, governmental charges, subscription charges and claims receivable from vendors.

The average credit period on sales of goods is 30 days. No interest is charged on trade receivables. The Group has recognized an allowance for impairment doubtful debts of 100% against all receivables that are over 180 days past due date because historical experience has been that receivables that are past due beyond 180 days are not recoverable. Before accepting any new customer, the Group has a credit facility policy set in place to assess the potential customer's credit quality and defines credit limits by customer. These procedures, are reviewed and updated on an ongoing basis. As of December 31, 2017, five of the company's major customers comprise 89% of the net trade receivables balance (December 2016: four of major customers comprise 92% of the net trade receivables balance). There are no other customers who represent more than 4% of the total balance of trade receivables.

Trade receivables include amounts, totaling SR 846,816 that are past due at the end of reporting period for which the Group has not recognized an allowance for impairment of doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

## 7. TRADE AND OTHER RECEIVABLES (Continued)

Age of receivables that are past due but not impaired

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| 1 to 90 days | **846,816** | 109,896 | 3,028,072 |
| 91 to 180 days | **-** | - | 36,584 |
| Average receivables (days) | **30 Days** | 30 days | 30 days |

The ageing of trade receivables and related allowance for impaired receivables are as follows:

| | **December 31, 2017 Gross SR** | **December 31, 2017 Impairment SR** | December 31, 2016 Gross SR | December 31, 2016 Impairment SR | January 1, 2016 Gross SR | January 1, 2016 Impairment SR |
|---|---|---|---|---|---|---|
| Not past due | **6,810,876** | **-** | 3,723,530 | - | 10,589,379 | - |
| Past due 1-90 days | **1,177,883** | **(303,665)** | 275,797 | (165,901 ) | 3,028,072 | - |
| Past due 91-180 days | **140,312** | **(140,312)** | 444,342 | (444,342) | 36,584 | - |
| Above 180 days | **1,276,441** | **(1,276,440)** | 976,325 | (976,325) | 1,394,511 | (1,394,511) |
| | **9,405,512** | **(1,720,417)** | 5,419,994 | (1,586,568) | 15,048,546 | (1,394,511) |

Movement in the allowance for impairment of trade receivable is as follows:

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Opening balance | 1,586,568 | 1,394,511 | 1,420,723 |
| Allowance for the year | **136,171** | 202,778 | (26,212) |
| Utilized allowance against receivables written off | **-** | (10,721) | - |
| Recovered for the year | **(2,322)** | - | - |
| Closing balance | **1,720,417** | 1,586,568 | 1,394,511 |

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The Group does not hold any collateral over impaired trade receivables.

## 8. INSTALLMENT SALES RECEIVABLE

Details of sales installment receivables are as follows:

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Installment sales receivable | **168,903,370** | 91,566,632 | 26,649,171 |
| Less: allowance for impairment | **(16,571,657)** | (10,530,741) | (1,585,332) |
| Net installment sales receivable | **152,331,713** | 81,035,891 | 25,063,839 |
| Less: non-current portion included in non-current assets | **(30,789,790)** | (18,464,809) | (6,952,247) |
| Installment sales receivable, net - current portion | **121,541,923** | 62,571,082 | 18,111,592 |

## 8. INSTALLMENT SALES RECEIVABLE (Continued)

The average credit installment granted is SR 10,000 at pre-determined rate. The Group has recognized an allowance for impairment of 100% against total unpaid principal balance that are more than 180 days as such receivables of this age are considered doubtful for collection.

Installment sales receivables include amounts totaling SR 11.61 million that are past due at the end of reporting period for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. All installment sales are covered by promissory notes.

Age of installment sales receivables that are past due but not impaired

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| 1 to 89 days | **9,085,560** | 4,653,180 | 116,749 |
| 90 to 179 days | **2,530,947** | 2,073,067 | 332,213 |
| Average receivables (days) | **32** | 26 | 25 |

Movement in the allowance for impairment

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Opening balance | **10,530,741** | 1,585,332 | - |
| Impairment for the year | **6,191,070** | 8,990,855 | 1,585,332 |
| Utilized allowance against receivables written off | **(150,154)** | (45,446) | - |
| Closing balance | **16,571,657** | 10,530,741 | 1,585,332 |

In determining the recoverability of an installment sales receivable, the Group considers any change in the credit quality of the installment sales receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. All installment sales are covered by promissory notes.

## 9. INVENTORIES

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Trade inventories | **872,008,490** | 534,303,379 | 631,301,189 |
| Inventory in transit | **4,607,463** | 6,035,512 | 15,384,742 |
| Spare parts | **8,473,480** | 6,465,135 | 6,209,318 |
| | **885,089,433** | 546,804,026 | 652,895,249 |
| Allowance for inventories | **(2,208,754)** | (2,758,555) | (1,103,131) |
| | **882,880,679** | 544,045,471 | 651,792,118 |

## 9. INVENTORIES (Continued)

Movement in the allowance for inventories is as follows:

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Opening balance | 2,758,555 | 1,103,131 | 13,935,364 |
| Addition for the year | **7,738,275** | 2,758,555 | 1,103,131 |
| Utilized against inventories written off | **(8,119,350)** | (1,103,131) | (13,935,364) |
| Reversal for the year | **(168,726)** | - | - |
| Closing balance | **2,208,754** | 2,758,555 | 1,103,131 |

## 10. CASH AND CASH EQUIVALENTS

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Cash at banks | **60,523,713** | 81,430,316 | 56,685,759 |
| Cash on hand | **16,636,896** | 18,767,642 | 9,536,421 |
| | **77,160,609** | 100,197,958 | 66,222,180 |

## 11. SHARE CAPITAL

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Authorized | **360,000,0000** | 360,000,0000 | 360,000,0000 |
| 36 million share of SR 10 each | **360,000,0000** | 360,000,0000 | 360,000,0000 |
| | | | |
| Issued and dully paid | **60,000,0000** | - | - |
| 6 million share of SR 10 each | **60,000,0000** | - | - |
| | | | |
| *Reconciliation of number of share outstanding* | | | |
| Opening balance | **36,000,0000** | 36,000,0000 | 36,000,0000 |
| Shared issued (note 1) | **6,000,0000** | - | - |
| Closing balance | **42,000,0000** | 36,000,0000 | 36,000,0000 |

## 12. STATUTORY RESERVE

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

## 13. MURABAHA FINANCE

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

## 14. EXTENDED WARRANTY SERVICES

Extended warranty services comprise of the amounts received from the customers in relation to the sale of extended warranty program. Revenue is deferred and amortized over the period of contract.

The breakup of current and non-current portion of the deferred revenue is as follows:

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Deferred revenue - Current portion | **46,578,052** | 9,685,452 | 12,022,839 |
| Deferred revenue - Non-current portion | **64,450,242** | 15,134,051 | 8,936,124 |
| | **111,028,294** | 24,819,503 | 20,958,963 |

Movement of extended warranty service is as follows,

| | **December 31, 2017 SR** | December 31, 2016 SR | January 01, 2016 SR |
|---|---|---|---|
| Balance as of January 1, 2017 | **24,819,503** | 20,958,963 | 14,508,398 |
| Contracts issued during the year | **66,597,785** | 60,414,519 | 51,542,442 |
| IFRS 15 impact (note no. 2.4) | **71,242,730** | - | - |
| Revenue recognition during the year | **(51,631,724)** | (56,553,979) | (45,091,877) |
| Balance as of December 31, 2017 | **111,028,294** | 24,819,503 | 20,958,963 |

## 15. DEFERRED REVENUE FROM SALES AND LEASE BACK

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

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

| | **December 31, 2017 SR** | December 31, 2016 SR | January 01, 2016 SR |
|---|---|---|---|
| Current portion | **136,596** | 136,596 | 136,596 |
| Non-current portion | **1,980,775** | 2,117,371 | 2,253,967 |
| | **2,117,371** | 2,253,967 | 2,390,563 |

## 16. OPERATING LEASE ARRANGEMENTS

The Group has entered into operating lease agreement for Land/building/employee accommodation for time period between 1 year to 25 years. The Group holds no right to acquire this property at the end of the contract.

| | **December 31, 2017 SR** | December 31, 2016 SR | January 01, 2016 SR |
|---|---|---|---|
| Expenses recognized against leasing Arrangements | **63,301,500** | 67,967,733 | 61,313,272 |

## 16. OPERATING LEASE ARRANGEMENTS – (Continued)

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

| | **December 31, 2017 SR** | December 31, 2016 SR | January 01, 2016 SR |
|---|---|---|---|
| Not later than 1 year | **67,258,183** | 63,722,263 | 64,236,636 |
| Later than 1 year and not later than 5 years | **308,491,830** | 171,758,941 | 178,466,711 |
| Later than 5 years | **476,029,461** | 616,378,108 | 673,392,601 |
| | **851,779,474** | 851,859,312 | 916,095,948 |

## 17. EMPLOYEES' END OF SERVICE BENEFITS

The Group carried out actuarial valuations to account for its obligations under defined benefit plan. As per valuation results, the Group has made adjustment of SR 2,555,036 and SR 1,784,798 as at January 1, 2016 and December 31, 2016 respectively and respective adjustment was made in opening accumulated losses (Ref: note 29).

Movement in employees end of service benefits during the period/ year is as follows:

| | **December 31, 2017 SR** | December 31, 2016 SR |
|---|---|---|
| Opening balance as at January 1 – as per SOCPA | **53,609,570** | 48,471,036 |
| Impact of transition (note 29) | **(1,784,798)** | (2,555,036) |
| Opening balance as at January 1 – as per IFRS | **51,824,772** | 45,916,000 |
| Expense charge for the period / year | **10,695,797** | 10,098,589 |
| Re-measurement (gain) | **(813,163)** | - |
| Payment | **(5,189,982)** | (4,189,817) |
| Closing balance | **56,517,424** | 51,824,772 |

**Charge to consolidated statement of profit or loss for the year**

| | **December 31, 2017 SR** | December 31, 2016 SR |
|---|---|---|
| Current service cost | **8,795,324** | 8,400,473 |
| Interest cost | **1,900,473** | 1,698,116 |
| Cost recognized in profit and loss | **10,695,797** | 10,098,589 |

## 17. EMPLOYEES' END OF SERVICE BENEFITS (Continued)

**Principal actuarial assumptions**

| | **December 31, 2017 SR** | December 31, 2016 SR |
|---|---|---|
| Discount factor used | **3.50%** | 3.50% |
| ***Salary increase rate*** | | |
| Year 1 | **2.20%** | 1.25% |
| Year 2 & onwards | **2.00%** | 2.00% |
| Rates of employees turnover | **Heavy** | Heavy |

Sensitivity analysis on present value of defined benefit obligations plan are as below:

| | **December 31, 2017** | | December 31, 2016 | |
|---|---|---|---|---|
| | **Percentage** | **Amount SR** | Percentage | Amount SR |
| **Discount rate** | | | | |
| Increase | **0.50%** | **53,842,765** | 0.50% | 49,580,155 |
| Decrease | **-0.50%** | **59,387,467** | -0.50% | 54,638,838 |
| **Expected rate of salary** | | | | |
| Increase | **0.50%** | **59,416,816** | 0.50% | 54,232,119 |
| Decrease | **-0.50%** | **53,792,496** | -0.50% | 49,656,143 |

## 18. TRADE AND OTHER PAYABLES

Trade and other payables comprise of the following:

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Trade payables | **538,481,680** | 488,692,903 | 558,569,785 |
| Accrual for employee costs | **40,557,565** | 31,256,551 | 25,818,617 |
| Gift cards | **37,343,907** | 36,822,083 | 39,995,777 |
| Advance from customers | **21,902,022** | 15,263,135 | 3,416,122 |
| Accrual for utilities and other charges | **13,548,152** | 20,788,235 | 12,588,434 |
| Non trade payables | **8,119,278** | 16,321,276 | 6,643,097 |
| Others | **34,716,704** | 12,274,498 | 6,555,116 |
| | **694,669,308** | 621,418,681 | 653,586,948 |

Other liabilities include accrual liabilities for contingency, supply chain and online delivery expenses.

## 19. ZAKAT

**The zakat and income tax provision for the year based on the following:**

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Opening Share capital | **360,000,000** | 360,000,000 | 300,000,000 |
| Reserves and opening provisions less utilized | **128,552,872** | 115,147,214 | 99,814,920 |
| Retained earnings | **30,643,498** | 104,156,980 | 156,135,569 |
| Closing value of long-term loans | **-** | - | 30,000,000 |
| Income subjected for zakat | **181,124,693** | 26,645,996 | 61,777,714 |
| Closing value of long-term assets | **(486,065,342)** | (461,630,110) | (512,612,496) |
| Zakat base | **214,255,721** | 144,320,080 | 135,115,707 |
| Zakat due at 2.5% | **5,356,393** | 3,608,002 | 3,377,893 |

Movement in provision for zakat is as follows:

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| At January 1, | **3,608,002** | 3,377,893 | 3,130,088 |
| Provision for the year | **4,700,096** | 3,506,916 | 3,377,893 |
| Payments | **(2,919,605)** | (3,276,807) | (3,874,996) |
| Under provision for the period | **-** | - | 744,908 |
| As at December 31, | **5,388,493** | 3,608,002 | 3,377,893 |

## 20. SEGMENTAL REPORTING

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

There are no intra segment transactions except those eliminated under consolidation adjustments. The details of the results pertaining to Kingdom of Saudi Arabia and subsidiaries results outside the Kingdom with their respective assets and liabilities for the period ended December 31, 2017 and December 31, 2016 are as follows:

***For the year ended December 31, 2017***

| **December 31, 2017** | **Inside the Kingdom of Saudi Arabia** | **Outside the Kingdom of Saudi Arabia** | **Consolidation adjustments** | **Total** |
|---|---|---|---|---|
| Revenue, net | **3,964,147,897** | **248,406,320** | **(2,773,758)** | **4,209,780,459** |
| Cost of revenue | **(3,289,044,929)** | **(213,180,922)** | **2,773,758** | **(3,499,452,093)** |
| Gross profit | **675,102,968** | **35,225,398** | **-** | **710,328,366** |
| Net profit / (loss) | **140,237,775** | **(195,879)** | **96,633** | **140,138,529** |

**20. SEGMENTAL REPORTING** (Continued)

***Financial position as at December 31, 2017***

| December 31, 2017 | Inside the Kingdom of Saudi Arabia | Outside the Kingdom of Saudi Arabia | Consolidation adjustments | Total |
|---|---|---|---|---|
| Current assets | **1,146,735,508** | **37,208,002** | **(50,952,822)** | **1,132,990,688** |
| Non-current assets | **444,244,083** | **57,361,453** | **17,599,124** | **519,204,660** |
| Total Assets | **1,590,979,591** | **94,569,455** | **(33,353,698)** | **1,652,195,348** |
| Current liabilities | **896,320,002** | **102,828,144** | **(50,952,822)** | **948,195,324** |
| Non-current liabilities | **128,069,660** | **9,847,441** | **-** | **137,917,101** |
| Total Liabilities | **1,024,389,662** | **112,675,585** | **(50,952,822)** | **1,086,112,425** |

***For year ended December 30, 2016 (note 29)***

| December 31, 2016 | Inside the Kingdom of Saudi Arabia | Outside the Kingdom of Saudi Arabia | Consolidation adjustments | Total |
|---|---|---|---|---|
| Revenue, net | 3,527,039,081 | 232,691,412 | (3,063,342) | 3,756,667,151 |
| Cost of revenue | (2,967,768,973) | (202,667,458) | 3,063,342 | (3,167,373,089) |
| Gross profit | 559,270,108 | 30,023,954 | - | 589,294,062 |
| Net loss | (5,333,155) | (24,600,673) | 27,569,672 | (2,364,156) |

***Financial position as at December 31, 2016 (note 29)***

| December 31, 2016 | Inside the Kingdom of Saudi Arabia | Outside the Kingdom of Saudi Arabia | Consolidation adjustments | Total |
|---|---|---|---|---|
| Current assets | 764,907,475 | 46,838,162 | (61,851,889) | 749,893,748 |
| Non-current assets | 428,786,073 | 60,652,373 | 6,853,978 | 496,292,424 |
| Total Assets | 1,193,693,548 | 107,490,535 | (54,997,911) | 1,246,186,172 |
| Current liabilities | 583,486,759 | 114,216,052 | (61,851,889) | 635,850,922 |
| Non-current liabilities | 75,159,262 | 7,305,513 | - | 82,464,775 |
| Total Liabilities | 658,646,021 | 121,521,565 | (61,851,889) | 718,315,697 |

## 21. SELLING, MARKETING AND DISTRIBUTION EXPENSES

Selling and marketing expenses for the year ended December 31 comprise the following:

| | **December 31, 2017 SR** | **December 31, 2016 SR** |
|---|---|---|
| Salaries, wages and other employee benefits | **201,429,871** | 199,713,771 |
| Rent | **69,922,551** | 68,554,685 |
| Advertising and other related cost | **31,567,109** | 45,444,887 |
| Depreciation and amortization | **35,957,318** | 35,730,890 |
| Utilities, Printing and Stationary | **28,023,302** | 28,749,937 |
| Bank Commission on credit/debit card sales | **16,763,721** | 13,292,761 |
| Cleaning Services | **7,541,966** | 10,101,943 |
| Provision for sales installment receivables | **6,191,070** | 8,990,855 |
| Repair and maintenance | **9,771,524** | 6,485,942 |
| Security Services and cash pick up charges | **8,840,864** | 9,348,405 |
| Delivery Charges | **12,398,023** | 8,482,182 |
| Travel and Accommodation | **1,486,582** | 1,718,577 |
| Legal expenses | **2,991,763** | 93,560 |
| Others | **10,634,274** | 21,245,510 |
| | **443,519,938** | 457,953,905 |

## 22. GENERAL AND ADMINISTRATION EXPENSES

General and Administration expenses for the year ended December 31, comprise the following:

| | **December 31, 2017 SR** | December 31, 2016 SR |
|---|---|---|
| Salaries, wages and other employee benefits | **81,692,680** | 82,711,138 |
| Depreciation and amortization | **8,299,057** | 7,759,181 |
| Legal and consultancy | **2,243,841** | 2,616,983 |
| Repair and maintenance | **5,711,210** | 4,738,439 |
| Travel and Accommodation and Communication | **1,595,497** | 2,306,060 |
| Utilities, Printing and Stationary | **1,924,010** | 1,941,043 |
| Rent | **238,000** | 238,000 |
| Cleaning services | **586,712** | 720,755 |
| Security and cash pickup | **179,145** | 126,923 |
| Others | **8,039,798** | 4,670,038 |
| | **110,509,950** | 107,828,560 |

## 23. OTHER EXPENSES

| | **December 31, 2017 SR** | December 31, 2016 SR |
|---|---|---|
| Unrealized exchange rate losses | **61,305** | 796,855 |
| Loss of Property, plant and equipment | **368,629** | 130,552 |
| Impairment of acquisition cost | **-** | 5,277,048 |
| Renovation expenses | **9,600,293** | 55,914 |
| | **10,030,227** | 6,260,369 |

## 24. OTHER INCOME

| | **December 31, 2017 SR** | December 31, 2016 SR |
|---|---|---|
| Scrap sales | **106,030** | **30,013** |
| Cash overage | **274,991** | **258,405** |
| Others | **1,299,663** | **140,429** |
| | **1,680,684** | **428,847** |

## 25. FINANCIAL COST

| | **December 31, 2017 SR** | December 31, 2016 SR |
|---|---|---|
| Finance charges – Interest on loan | **2,507,694** | **1,697,435** |
| Finance charges – Bank charges | **525** | **89,611** |
| | **2,508,219** | **1,787,046** |

## 26. RELATED PARTIES' TRANSACTIONS AND BALANCES

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

## 26. RELATED PARTIES' TRANSACTIONS AND BALANCES (Continued)

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

| | **Transaction Amount** | | **Balance at** | | |
|---|---|---|---|---|---|
| **Nature of transaction** | **December 31, 2017** | December 31, 2016 | **December 31, 2017** | December 31, 2016 | January 01, 2016 |
| | **SR** | SR | **SR** | SR | SR |
| **Sales to** | | | | | |
| Al Fozan Holding Company | **(616,677)** | (539,299) | - | - | - |
| **Purchases from** | | | | | |
| United Homeware Company | **18,891,941** | 5,531,894 | **2,839,186** | 31,225 | 51,722 |
| Integrated Distribution Solutions Company | **400,771,302** | 363,649,689 | - | 631,276 | (2,917,668) |
| Digital Electronics Solutions Development Company | - | 16,538,925 | - | - | 15,037,405 |
| Al Yassra Trading Co. | **1,566,884** | 2,100,481 | **1,598,178** | 2,067,479 | - |
| | **421,230,127** | 387,820,989 | **4,437,364** | 2,729,980 | 12,171,459 |
| **Rental income from** | | | | | |
| United Homeware Company | **4,929,080** | 4,383,163 | - | - | - |
| **Rent expense from** | | | | | |
| Al Fozan Building Materials Co. | **550,000** | 550,000 | - | - | - |
| Abdullatif and Mohamed Al Fozan Co. | **1,690,600** | 1,571,800 | - | - | - |
| | **2,240,600** | 2,121,800 | - | - | - |
| **Other expenses expense from / (to)** | | | | | |
| Al Fozan Building Materials Co. | **300,875** | 271,273 | - | - | - |
| **Management fee from** | | | | | |
| United Homeware Company | **(982,920)** | - | - | - | - |
| Digital Electronics Solutions Development Co. | - | (1,652,060) | - | - | - |
| | **(982,920)** | (1,652,060) | - | - | - |

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

During the year ended December 31, the Company had the following significant transactions with its related parties.

| **Entity** | **Relationship** |
|---|---|
| Abdullatif and Mohamed Al Fozan Co. | Affiliate of a shareholder |
| United Homeware Company | Affiliate of a shareholder |
| Digital Electronics Solutions Development Company | Affiliate of a shareholder |
| Al Fozan Holding Company | Shareholder |
| Al Fozan Building Materials Co. | Affiliate of a shareholder |
| Integrated Distribution Solutions Company | Affiliate of a shareholder |
| Al Yassra Trading Co. | Affiliate of a board member |

## 26. RELATED PARTIES' TRANSACTIONS AND BALANCES (Continued)

**Key management compensation:**

| | **December 31, 2017** | **December 31, 2016** |
|---|---|---|
| | **SR** | **SR** |
| Short term benefit | **11,546,291** | 9,774,618 |
| Amount payable under retention program | **1,126,181** | 937,634 |
| BOD and related committees remuneration | **2,006,285** | 1,778,638 |

## 27. EARNINGS PER SHARE

During the year, the company issued bonus share of one ordinary share for each six ordinary shares outstanding by the end of trading on the day of the Extraordinary General Assembly (i.e. May 14, 2017). Such bonus shares were issued to the existing shareholders for no consideration. as required by IAS 33 "Earnings per share", the number of ordinary shares outstanding before the issuance were adjusted for the proportionate change in the number of ordinary shares outstanding as if the issuance had occurred at the beginning of the earliest period presented.

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

Earnings per share for the year is as follows,

| | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| | **SR** | SR |
| **Basic earnings / (loss) per share** | | |
| Profit / (loss) for the year | **140,138,529** | (2,364,156) |
| Weighted average number of outstanding shares | **42,000,000** | 42,000,000 |
| | **3.34** | (0.06) |

## 28. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group's principal financial liabilities comprise trade and other payables and loans. The Group's principal financial assets comprise cash and cash equivalents, trade and other receivables and installment sale receivables.

<u>**Financial instruments by category**</u>

| | **December 31, 2017** | December 31, 2016 | January 01, 2016 |
|---|---|---|---|
| | **SR** | SR | SR |
| ***Financial assets at amortized cost:*** | | | |
| Installment sale receivables | **152,331,713** | 81,035,891 | 25,063,839 |
| Trade and other receivables | **59,137,104** | 54,790,106 | 76,389,293 |
| Cash and cash equivalents | **77,160,609** | 100,197,958 | 66,222,180 |
| **Total Financial assets** | **288,629,426** | 236,023,955 | 167,675,312 |
| ***Financial liabilities at amortized cost:*** | | | |
| Trade and other payables | **694,669,308** | 621,418,681 | 653,586,948 |
| Loans | **200,000,000** | - | 30,000,000 |
| **Total financial liabilities** | **894,669,308** | 621,418,681 | 683,586,948 |

The Company have no financial asset / liability at fair value through profit and loss.

## 28. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

The main financial risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of these risks which are summarized below:

### Market risk

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

### Foreign currency risk management

Foreign currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates. The Group's major financial assets and financial liabilities are denominated in Saudi Riyal, Omani riyal(OR), Bahraini Dinar (BD), US Dollars (USD), and Euro (Euro). Saudi riyals are pegged to the US Dollar, similarly Bahraini Dinar and Omani Riyals and consequently balances in those currencies are not considered to represent a currency risk.

Management monitors the fluctuations in Euro currency exchange rates with Saudi Riyals and manages its effect on the financial statements accordingly. Management monitors fluctuations in other foreign exchange rates and manages their effect on the consolidated financial statements accordingly. The Group did not have any significant foreign currency denominated monetary assets or liabilities at the reporting date for which it was exposed to foreign currency fluctuations. Consequently, no foreign currency sensitivity analysis has been presented. The group is exposed to foreign currency risk as follows:

| | Currency | December 31, 2017 SR | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|---|
| Cash and cash equivalent | USD | **421,003** | 2,592,791 | 2,987,028 |
| | EUR | **482,428** | - | 3,007,369 |
| Trade and other payables | USD | **15,952,773** | 43,194,872 | 13,308,169 |
| | | **16,856,204** | 45,787,663 | 19,302,566 |

### Interest rate

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has interest bearing loans at December 31, 2017 and 2016. Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

*Interest rate sensitivity analysis*

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate assets and liabilities, the analysis is prepared assuming the amount of the assets or liability outstanding at the end of the reporting period was outstanding for the whole period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

## 28. FINANCIAL RISK MANAGEMENT (Continued)

**Interest rate** (Continued)

| | | Increase/ Decrease in basis points of interest rates | Effect on income for the year |
|---|---|---|---|
| | | | SR |
| **December 31, 2017** | **SAR** | **+50** | **403,818** |
| | **SAR** | **-50** | **(405,210)** |
| December 31, 2016 | SAR | +50 | 305,347 |
| | SAR | -50 | (305,347) |
| January 01, 2016 | SAR | +50 | 466,763 |
| | SAR | -50 | (648,653) |

**Liquidity risk**

The Group maintains sufficient cash. Management review cash flow forecasts on a regular basis to determine whether the Group has sufficient cash reserves to meet future working capital requirements and to take advantage of business opportunities. The average creditor payment period is 53 days (2016: 60 days).

*Contractual maturity analysis for financial liabilities*

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

| **December 31, 2017** | **Interest rate** | **Within 1 year** | **1-5 years** | **Total** |
|---|---|---|---|---|
| | | **SR** | **SR** | **SR** |
| Trade and other payables | **Interest free** | **694,669,308** | **-** | **-** |
| Murabaha finance | **3.20%** | **200,000,000** | **-** | **-** |
| Finance lease liability | **Interest free** | **123,150** | **-** | **-** |

| **December 31, 2016** | **Interest rate** | **Within 1 year** | **1-5 years** | **Total** |
|---|---|---|---|---|
| | | **SR** | **SR** | **SR** |
| Trade and other payables | **Interest free** | **621,418,681** | - | - |

**Credit risk**

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

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

| **Description** | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Cash and cash equivalents | **77,160,609** | 100,197,958 | 66,222,180 |
| Accounts receivables and installment sales receivable | **211,468,817** | 135,825,997 | 101,453,132 |

The ageing of trade accounts receivable and related allowance of impaired receivables and installment sales are included in note 7 and 8 respectively.

## 28. FINANCIAL RISK MANAGEMENT (Continued)

**Credit risk** (Continued)

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

**Capital management**

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

**Fair value of financial instruments**

The directors consider that the carrying values of the financial instruments reported in the statement of financial position approximate their fair values.

## 29. IMPACT OF ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

### 29.1 Effect of IFRS adoption on the statement of financial position

| | | As at 31 December 2016 | | | As at 1 January 2016 | | |
|---|---|---|---|---|---|---|---|
| | Notes | SOCPA | Transition effect | IFRS | SOCPA | Transition effect | IFRS |
| | | SR | SR | SR | SR | SR | SR |
| **Assets** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Property and equipment | a,c | 456,616,831 | (21,556,251) | 435,060,580 | 470,424,868 | (14,618,380) | 455,806,488 |
| Intangible assets | C | 5,011,645 | 25,207,131 | 30,218,776 | 7,344,369 | 17,338,320 | 24,682,689 |
| Deferred tax assets | | 837,390 | - | 837,390 | - | - | - |
| Trade and other receivables | i,j | - | 11,710,869 | 11,710,869 | - | 8,220,581 | 8,220,581 |
| Installment sales receivables – noncurrent portion | | 18,464,809 | - | 18,464,809 | 6,952,247 | - | 6,952,247 |
| **Total noncurrent assets** | | **480,930,675** | **15,361,749** | **496,292,424** | **484,721,484** | **10,940,521** | **495,662,005** |
| **Current assets** | | | | | | | |
| Inventories | | 544,045,471 | - | 544,045,471 | 651,792,118 | - | 651,792,118 |
| Prepayments and other current assets | J | 59,985,708 | (59,985,708) | - | 68,934,738 | (68,934,738) | - |
| Installment sales receivables - current portion | | 62,571,082 | - | 62,571,082 | 18,111,592 | - | 18,111,592 |
| Trade and other receivables | i,j | 3,266,199 | 39,813,038 | 43,079,237 | 13,654,035 | 54,514,677 | 68,168,712 |
| Cash and cash equivalents | | 100,197,958 | - | 100,197,958 | 66,222,180 | - | 66,222,180 |
| **Total current assets** | | **770,066,418** | **(20,172,670)** | **749,893,748** | **818,714,663** | **(14,420,061)** | **804,294,602** |
| **Total assets** | | **1,250,997,093** | **(4,810,921)** | **1,246,186,172** | **1,303,436,147** | **(3,479,540)** | **1,299,956,607** |
| **Shareholders' equity** | | | | | | | |
| Share capital | | 360,000,000 | - | 360,000,000 | 360,000,000 | - | 360,000,000 |
| Statutory reserve | | 66,299,054 | (210,166) | 66,088,888 | 66,088,888 | - | 66,088,888 |
| Retained earnings | a,b,d,e,g | 106,048,475 | (4,162,247) | 101,886,228 | 105,596,980 | (1,344,601) | 104,252,379 |
| Foreign currency translation reserve | | (104,641) | - | (104,641) | (65,938) | - | (65,938) |
| **Equity attributable to the shareholders of the Company** | | 532,242,888 | (4,372,413) | 527,870,475 | 531,619,930 | (1,344,601) | 530,275,329 |
| Non-controlling interest | | - | - | - | 1995 | (1995) | - |
| **Total equity** | | **532,242,888** | **(4,372,413)** | **527,870,475** | **531,621,925** | **(1,346,596)** | **530,275,329** |

### 29.1 Effect of IFRS adoption on the statement of financial position (Continued)

| | Note | SOCPA SR | Transition effect SR | IFRS SR | SOCPA SR | Transition effect SR | IFRS SR |
|---|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | | |
| **Non-current liabilities** | | | | | | | |
| Medium term loan-Murabaha finance – noncurrent portion | | - | - | - | 10,000,000 | - | 10,000,000 |
| Deferred revenue from extended warranty program– noncurrent portion | D | 15,134,051 | - | 15,134,051 | 8,936,124 | - | 8,936,124 |
| Deferred revenue from sale and leaseback – noncurrent portion | | 14,904,128 | (12,786,757) | 2,117,371 | 15,865,676 | (13,611,709) | 2,253,967 |
| Operating lease liability – noncurrent portion | | - | 13,388,581 | 13,388,581 | - | 12,808,170 | 12,808,170 |
| Deferred tax liabilities | | - | - | - | 32,158 | - | 32,158 |
| End of service benefits | B | 53,609,570 | (1,784,798) | 51,824,772 | 48,471,036 | (2,555,036) | 45,916,000 |
| | | **83,647,749** | **(1,182,974)** | **82,464,775** | **83,304,994** | **(3,358,575)** | **79,946,419** |
| **Current liabilities** | | | | | | | |
| Trade and other payables | f,g | 488,692,903 | 132,725,778 | 621,418,681 | 558,569,785 | 95,017,163 | 653,586,948 |
| Accrued expenses and other liabilities | F | 132,158,551 | (132,158,551) | - | 93,577,163 | (93,577,163) | - |
| Deferred revenue from additional services program – current portion | | 9,685,452 | - | 9,685,452 | 12,022,839 | - | 12,022,839 |
| Deferred revenue from sale and leaseback – current portion | D | 961,548 | (824,952) | 136,596 | 961,548 | (824,952) | 136,596 |
| Operating lease liability – current portion | | - | 1,002,191 | 1,002,191 | - | 610,583 | 610,583 |
| Medium term loan-Murabaha finance – current portion | | - | - | - | 20,000,000 | - | 20,000,000 |
| Zakat provision | | 3,608,002 | - | 3,608,002 | 3,377,893 | - | 3,377,893 |
| **Total current liabilities** | | **635,106,456** | **744,466** | **635,850,922** | **688,509,228** | **1,225,631** | **689,734,859** |
| **Total liabilities** | | **718,754,205** | **(438,508)** | **718,315,697** | **771,814,222** | **(2,132,944)** | **769,681,278** |
| **TOTAL EQUITY AND LIABILITIES** | | **1,250,997,093** | **(4,810,921)** | **1,246,186,172** | **1,303,436,147** | **(3,479,540)** | **1,299,956,607** |

### 29.1 Effect of IFRS adoption on the statement of financial position (Continued)

| Reconciliation of equity | December 31, 2016<br>SR | January 1, 2016<br>SR |
|---|---|---|
| Total equity under SOCPA | 532,242,888 | 531,621,925 |
| Impact of straight-line recognition of operating lease rentals | (23,419,800) | (19,618,233) |
| Actuarial value of employees end of service benefits | 1,784,798 | 2,555,036 |
| Impact of recognition of profit on sale and operating leaseback | 13,611,709 | 14,436,661 |
| Impact of residual value of property and equipment | 3,650,880 | 2,719,940 |
| Accrual of directors' remuneration | - | (1,440,000) |
| Total adjustments to equity | (4,372,413) | (1,346,596) |
| Total equity under IFRS | 527,870,475 | 530,275,329 |

### 29.2 Effect of IFRS adoption on the statement of profit or loss and other comprehensive income for the year ended December 31, 2016

| | SOCPA | Transition effect | Reclassification | IFRS |
|---|---|---|---|---|
| | SR | SR | | SR |
| Revenue | 3,752,283,988 | 4,383,163 | - | 3,756,667,151 |
| Cost of revenue | (3,167,373,089) | - | - | (3,167,373,089) |
| **Gross profit** | **584,910,899** | 4,383,163 | **-** | **589,294,062** |
| Selling, marketing and distribution expenses | (453,394,466) | (4,465,802) | (93,637) | (457,953,905) |
| Administrative expenses | (107,922,197) | - | 93,637 | (107,828,560) |
| Other expenses | - | (6,260,369) | - | (6,260,369) |
| Impairment of Property, Plant and Equipment | (15,619,817) | - | - | (15,619,817) |
| Other income | (1,448,344) | 1,877,191 | - | 428,847 |
| **Net profit (loss) before zakat** | **6,526,075** | **(4,465,817)** | **-** | **2,060,258** |
| Finance cost | (1,787,046) | - | - | (1,787,046) |
| Zakat | (3,506,916) | - | - | (3,506,916) |
| Deferred income | 869,548 | - | - | 869,548 |
| **Net profit (loss) for the period** | **2,101,661** | **(4,465,817)** | **-** | **(2,364,156)** |
| **Other comprehensive income**<br>***Item that may be reclassified subsequently to profit and loss*** | | | | |
| Exchange differences on translating foreign operation | - | (38,703) | - | (38,703) |
| **Total comprehensive income (loss) for the period** | **2,101,661** | **(4,504,520)** | **-** | **(2,402,859)** |
| **Net income (loss) for the period attributable to:** | | | | |
| Shareholders of the Company | **2,101,661** | **(4,465,817)** | **-** | **(2,364,156)** |
| ***Total comprehensive income (loss) for the period attributable to :*** | | | | |
| Shareholders of the Company | **2,101,661** | **(4,504,520)** | **-** | **(2,402,859)** |
| income (loss) ***per share***<br>Basic and diluted income (loss) per share (Saudi Riyal per share) | **0.05** | **-** | **-** | **(0.06)** |

**29.2 Effect of IFRS adoption on the statement of profit or loss and other comprehensive income for the year ended December 31, 2016** (continued)

| | For the year ended December 31, 2016 | |
|---|---|---|
| | **Net income before Zakat SR** | **Net loss for the year SR** |
| **Net profit reported under SOCPA** | 4,739,029 | 2,101,661 |
| Impact of straight-line recognition of operating lease rentals | (3,801,567) | (3,801,567) |
| Actuarial value of end of service benefits | (770,238) | (770,238) |
| Impact of recognition of profit on sale and operating leaseback | (824,952) | (824,952) |
| Impact of residual value of property and equipment | 930,940 | 930,940 |
| **Net profit (loss) reported under IFRS** | 273,212 | (2,364,156) |
| Other comprehensive (loss) income | | (38,703) |
| **Total comprehensive income (loss) for the year under IFRS** | | (2,402,859) |

### 29.3 Notes to reconciliations

a) IAS 16 Property and equipment requires that items of property and equipment depreciated to a residual value, which is determined based on the estimated useful lives of the property and equipment. The Group previously depreciated items of property and equipment to zero without considering a residual value. The effect of setting a residual value for the remaining assets not yet depreciated to zero resulted in a decrease in depreciation expense of SR 930,940 for the period ended December 31, 2016 and an increase in equity of SR 2,719,940 as at January 1, 2016. Similarly, for the year ended December 31, 2016, the effect is an increase in equity of SR 3,650,880.

b) IAS 19 Employee benefits require that long-term employee benefits be actuarially valued. The Group liability for End of Service Benefits ("EOSB") is therefore required to be actuarially valued. The Group previously determined its liability for EOSB based on the requirements of Local Labor Law. The effect of this change is an increase in the EOSB expense of SR 770,238 for the period ended December 31, 2016 and an increase in equity of SR 2,555,036 as at January 1, 2016. For the year ended December 31, 2016, an increase in equity by SR 1,784,798.

c) IAS 38 Intangible assets require that intangible assets be disclosed separately in the notes and on the face of the statement of financial position. The Group previously reported intangible assets under capital work in progress within property and equipment. The effect of this change is an increase in intangible assets of SR 17,338,320 as at January 1, 2016. For the year ended December 31, 2016, the balance of intangible assets was SR 30,218,776.

d) IAS 17 Leases requires that for a sales and operating leaseback transaction the difference between the fair value and the carrying amount of the asset at the time of transaction be recognized immediately in the Consolidated statement of income. The excess of the sales proceeds over fair value should be deferred and amortized over the period for which the asset is expected to be used. Previously the difference between sales price and carrying value was deferred over the period of the lease term. The effect of this change is an increase in the lease expense of SR 824,952 for the period ended December 31, 2016 and an increase in equity of SR 14,436,661 as at January 1, 2016. For the year ended December 31, 2016, an increase in equity by SR 13,611,709.

e) IAS 17 Leases requires that operating lease payments should be recognized on a straight-line basis over the term of the leases, even if the lease payments are not made on that basis. The Group previously recognized operating lease expenses based on payments made. The effect of this change is an increase in the lease expense of SR 3,801,567 for the period ended December 31, 2016 and a decrease in equity of SAR 19,618,233 as at January 1, 2016. For the year ended December 31, 2016, a decrease in equity by SR 23,419,800.

f) Reclassification of accrued expenses and other liabilities to trade and other payables. This has been done in order to comply with IAS 1 Presentation of Financial Statements.

g) Accrual of directors' remuneration which was not required under SOCPA as at January 1, 2016.

h) Employees' loans and advances were previously all presented as part of current assets. As at January 1, 2016, SR 1,624,737 of this amount is due in more than 12 months from the reporting date. This has been reclassified to non-current assets in order to comply with IAS 1.

i) Reclassification of prepayments and other current assets to trade and other receivables. This has been done in order to comply with IAS 1.

j) Allocation of long-term portion amounting to SR 6,595,844 of prepayments to non-current assets portion as at January 1, 2016.

## 30. DIVIDENDS DISTRIBUTION

The Board of Directors in their meeting held on July, 2017 resolved to distribute cash dividends of SR 0.75 per share to the shareholders of the Company for the first half of 2017 with a total of SR 31.50 million.

## 31. CONTINGENCIES AND COMMITMENTS

| | **December 31, 2017 SR** | December 31, 2016 SR | January 1, 2016 SR |
|---|---|---|---|
| Letters of credit | **379,629,739** | 159,320,299 | 167,688,995 |
| Letters of guarantee | **26,091,198** | 33,903,698 | 56,856,073 |
| Commitments for the acquisition of property and equipment | **2,613,956** | 24,515,140 | 5,332,961 |
| Commitments for the acquisition of intangible assets | **914,344** | 1,500,000 | 1,431,270 |

## 32. COMPARATIVE FIGURES

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

## 33. SUBSEQUENT EVENTS

The Board of Directors in their meeting held on February 21**,** 2018 resolved to distribute SR 52.5 million cash dividends to the shareholders of the Company for the second half of 2017.
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## 34. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated financial statements were approved by the board of directors and authorized for issue on February 27, 2018 corresponding to 11 Jumada II, 1439H.