

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

**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**WITH INDEPENDENT AUDITOR'S REPORT**

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

**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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## INDEPENDENT AUDITOR'S REPORT

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, 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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, 2018, 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*

Key Audit Matter	How our audit addressed the key audit matter
<p><b>1- Revenue Recognition and Information Technology (IT) systems</b></p> <p>As of December 31, 2018, the Group had recognized revenue of SR 4,394 million (2017: SR 4,210 million).</p> <p>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 to ensure that 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.</p> <p>Refer to the note 3, to the consolidated financial statements for the accounting policy related to revenue recognition.</p>	<p>We performed the following procedures in relation to revenue recognition:</p> <ul style="list-style-type: none"> <li>• Focused our audit on those IT systems and controls that are significant for the Company's sales processes. We involved IT specialists in our audit as audit procedures over IT systems and controls require specific expertise.</li> <li>• 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, data reliability, data extraction, data interface, integration and financial reporting, in addition to other analytical procedures over the revenue processes.</li> <li>• Assessed the appropriateness of the group's revenue recognition policies in relation to the requirements of relevant accounting standards.</li> <li>• Assessed the design and operating effectiveness of controls associated with the revenue function including sales modules, automated and manual controls and other related aspects;</li> <li>• Performed detailed analytical review for the various elements of revenue / sales;</li> <li>• Tested the controls implemented on 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.</li> <li>• Performed test of details in addition to test of controls where deemed necessary.</li> </ul>

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**INDEPENDENT AUDITOR'S REPORT - Continued**

**Key Audit Matters - Continued**

Key Audit Matter	How our audit addressed the key audit matter
<b>2- Adoption of IFRS 9– “Financial instruments” and impact on the impairment allowance of financial assets</b>	
<p>The Group has adopted IFRS 9 “Financial instruments” effective January 1, 2018.</p> <p>This standard replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The basis of classification depends on the business model based on which the financial assets are managed together with its relevant contractual cash flow characteristics. IFRS 9 replaces the “incurred loss” model in the IAS 39 with an “Expected Credit Loss” model (ECL) for the calculation of impairment allowance for financial assets.</p> <p>We consider this matter as a key audit matter due to level of significant judgement and assumption used by management in the calculation of impairment of financial assets based on its ECL model.</p> <p>Refer to note 2, to the consolidated financial statements for the accounting policy related financial instruments policies for impairment allowances.</p>	<p>We performed the following procedures for assessing the impact on the impairment allowance of financial assets on adaption of IFRS 9.</p> <ul style="list-style-type: none"> <li>• Evaluated the appropriateness of the application of expected credit loss model prepared, by the independent consultant of the Company, for the relevant financial assets by understanding the nature of the financial assets and comparing the application to the requirements of the standard.</li> <li>• Verified the data inputs in assessing the reasonableness of the probability of defaults (PDs) against source documents.</li> <li>• Tested the Loss Given Default (LGDs) in the ECL calculation for a sample of instruments.</li> <li>• Tested key assumptions, such as those used to calculate the likelihood of Default and the subsequent loss on default, by comparing to the historical data. We also considered the incorporation of forward looking factors (predominantly economic) to reflect the impact of future events as expected credit losses.</li> <li>• We have also reviewed the adequacy of the Group's disclosures as presented in the accompanying consolidated financial statements.</li> </ul>

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**INDEPENDENT AUDITOR'S REPORT - Continued**

**Key Audit Matters - Continued**

Key Audit Matter	How our audit addressed the key audit matter
<p><b>3- Inventory valuation</b></p> <p>As at December 31, 2018, the Group held SR 791 million of inventories (2017: SR 883 million) of allowance for mark down and slow moving inventories.</p> <p>As described in "note 3", inventories are held at the lower of cost and net realizable value. Cost of inventories is 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 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:</p> <ul style="list-style-type: none"> <li>- Use inventory ageing reports together with historical trends to estimate the likely future salability of slow and older inventory;</li> <li>- Management applies percentages to the inventory to write down based on its aging at year end. The percentages are derived from historical levels of mark down;</li> <li>- 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.</li> </ul> <p>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.</p> <p>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.</p> <p>Refer to note 3 to the consolidated financial statements for the accounting policy for inventory.</p>	<p>We performed the following procedures over the valuation of inventory:</p> <ul style="list-style-type: none"> <li>• Validated the consistency of the accounting policy adopted by management.</li> <li>• 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.</li> <li>• Re-performed the weighted average cost calculation for a sample of inventory items;</li> <li>• 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;</li> <li>• Tested the net realizable value of inventory item to recent selling prices on a sample basis;</li> <li>• Evaluated the adopted policy for inventory valuations, mark-down and slow moving;</li> <li>• Assessed the percentage mark-down applied to old inventory with reference to historic inventory mark-down, recoveries on slow-moving inventory.</li> <li>• Re-performed the calculation of the inventory mark-down and slow moving allowance.</li> <li>• Tested the IT controls related to systems in use for the computation of inventory ageing.</li> </ul>

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## INDEPENDENT AUDITOR'S REPORT - *Continued*

### **Other Information included in the group's 2018 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with 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**

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulation for Companies in the Kingdom of Saudi Arabia and the Company's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

Al-Bassam & Co.  
Allied Accountants

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March 31, 2019  
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**UNITED ELECTRONICS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2018**

		December 31, 2018	December 31, 2017
	Notes	SR	SR
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	456,975,522	441,174,337
Intangible assets	6	41,914,808	39,275,607
Deferred tax assets		-	235,299
Trade and other assets – Noncurrent portion	7	4,142,495	7,729,627
Installment sales receivable – Noncurrent portion	8	87,340,613	30,789,790
		<u>590,373,438</u>	<u>519,204,660</u>
<b>Current assets</b>			
Inventories	9	791,490,691	882,880,679
Trade and other assets	7	111,026,146	51,407,477
Installment sales receivable - Current portion	8	262,136,609	121,541,923
Cash and cash equivalents	10	211,206,159	77,160,609
		<u>1,375,859,605</u>	<u>1,132,990,688</u>
		<u>1,966,233,043</u>	<u>1,652,195,348</u>
<b>TOTAL ASSETS</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	11	500,000,000	420,000,000
Statutory reserve	12	21,221,944	25,102,741
Other reserves		1,600,000	-
Retained earnings		140,861,047	120,268,174
Foreign currency translation reserve		(108,461)	(101,155)
Actuarial reserve		2,008,873	813,163
Treasury shares	28	(20,000,000)	-
		<u>645,583,403</u>	<u>566,082,923</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred revenue from extended warranty program – Noncurrent portion	14	67,075,257	64,450,242
Deferred revenue from sale and leaseback – Noncurrent portion	15	1,844,179	1,980,775
Operating lease liability – Noncurrent portion	16	16,753,311	14,871,910
Deferred tax liabilities		638,693	-
End of service benefits	17	55,815,961	56,517,424
Finance lease – Noncurrent portion		423,230	96,750
		<u>142,550,631</u>	<u>137,917,101</u>
<b>Current liabilities</b>			
Trade and other payables	18	655,578,224	694,669,308
Deferred revenue from extended warranty program – Current portion	14	52,396,359	46,578,052
Deferred revenue from sale and leaseback – Current portion	15	136,596	136,596
Operating lease liability– Current portion	16	1,964,292	1,396,475
Murabah finance	13	460,000,000	200,000,000
Zakat provision	19	7,900,373	5,388,493
Finance lease – current portion		123,165	26,400
		<u>1,178,099,009</u>	<u>948,195,324</u>
		<u>1,320,649,640</u>	<u>1,086,112,425</u>
<b>Total liabilities</b>		<u>1,966,233,043</u>	<u>1,652,195,348</u>
<b>TOTAL EQUITY AND LIABILITIES</b>			

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 March 3, 2019.

\_\_\_\_\_  
**Chief Financial Officer**

\_\_\_\_\_  
**Chief Executive Officer**

\_\_\_\_\_  
**Chairman**

The accompanying notes 1 to 33 form an integral part of these consolidated financial statement.

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Notes	For the year ended	
		December 31,	December 31,
		2018	2017
		SR	SR
Revenue, net	20,26	4,394,080,406	4,209,780,459
Cost of revenue	20, 26	(3,614,467,634)	(3,499,505,117)
<b>Gross profit</b>		<b>779,612,772</b>	<b>710,275,342</b>
Selling, marketing and distribution expenses	21	(480,492,061)	(445,988,107)
General and Administrative expenses	22	(119,122,146)	(107,988,757)
Other expenses	23	(1,610,594)	(10,030,227)
Other income	24	1,811,685	1,680,684
Finance cost	25	(10,170,222)	(2,508,219)
<b>Net profit before zakat</b>		<b>170,029,434</b>	<b>145,440,716</b>
Zakat	19	(7,963,413)	(4,700,096)
Deferred tax expense		(873,992)	(602,091)
<b>Net profit for the year</b>		<b>161,192,029</b>	<b>140,138,529</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items that may not be reclassified subsequently to profit and loss :</i>			
Re-measurement of end of service benefits		1,195,710	813,163
<i>Item that may be reclassified subsequently to statement of profit or loss:</i>			
Exchange differences on translation of foreign operations		(7,306)	3,486
<b>Other comprehensive income for the year</b>		<b>1,188,404</b>	<b>816,649</b>
<b>Total of other comprehensive income for the year</b>		<b>162,380,433</b>	<b>140,955,178</b>
<b>Profit for the year attributable to:</b>			
Shareholders of the Company		<b>161,192,029</b>	<b>140,138,529</b>
<b>Total comprehensive income for the year attributable to :</b>			
Shareholders of the Company		<b>162,380,433</b>	<b>140,955,178</b>
Basic earnings per share (Saudi Riyal per share)	27	3.22	2.80
Diluted earnings per share (Saudi Riyal per share)	27	3.36	2.92

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 March 3, 2019.

\_\_\_\_\_  
Chief Financial Officer

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Chairman

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Share capital	Statutory reserve	Other reserves	Retained earnings	Foreign currency translation reserve	Actuarial reserve	Equity attributable to shareholders of the company	Treasury shares	Total equity
	SR	SR		SR	SR	SR	SR	SR	SR
Balance at December 31, 2016	360,000,000	66,088,888	-	101,886,228	(104,641)	-	527,870,475	-	527,870,475
Adjustment on 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
Transfer to statutory reserve	-	14,013,853	-	(14,013,853)	-	-	-	-	-
Other comprehensive income	-	-	-	-	3,486	813,163	816,649	-	816,649
Total comprehensive income for the year	-	14,013,853	-	126,124,676	3,486	813,163	140,955,178	-	140,955,178
<b>Transactions with shareholders in their capacity as shareholders</b>									
Dividends	-	-	-	(31,500,000)	-	-	(31,500,000)	-	(31,500,000)
Increase in share capital	60,000,000	(55,000,000)	-	(5,000,000)	-	-	-	-	-
	60,000,000	(55,000,000)	-	(36,500,000)	-	-	(31,500,000)	-	(31,500,000)
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 March 3, 2019.

Chief Financial Officer

Chief Executive Officer

Chairman

The accompanying notes 1 to 33 form an integral of these consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Share capital	Statutory reserve	Other reserves	Retained earnings	Foreign currency translation reserve	Actuarial reserves	Equity attributable to shareholders of the Company	Treasury shares	Total equity
	SR	SR		SR	SR	SR	SR	SR	SR
Balance at December 31, 2017	420,000,000	25,102,741	-	120,268,174	(101,155)	813,163	566,082,923	-	566,082,923
Adjustment on adoption of IFRS 9	-	-	-	(479,953)	-	-	(479,953)	-	(479,953)
<b>Balance as at January 1, 2018 (Adjusted)</b>	<b>420,000,000</b>	<b>25,102,741</b>	<b>-</b>	<b>119,788,221</b>	<b>(101,155)</b>	<b>813,163</b>	<b>565,602,970</b>	<b>-</b>	<b>565,602,970</b>
Net income for the year	-	-	-	161,192,029	-	-	161,192,029	-	161,192,029
Transfer to statutory reserve	-	16,119,203	-	(16,119,203)	-	-	-	-	-
Other comprehensive income	-	-	-	-	(7,306)	1,195,710	1,188,404	-	1,188,404
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>16,119,203</b>	<b>-</b>	<b>145,072,826</b>	<b>(7,306)</b>	<b>1,195,710</b>	<b>162,380,433</b>	<b>-</b>	<b>162,380,433</b>
<b>Transactions with shareholders in their capacity as shareholders</b>									
Dividends	-	-	-	(84,000,000)	-	-	(84,000,000)	-	(84,000,000)
Increase in share capital	80,000,000	(20,000,000)	-	(60,000,000)	-	-	-	-	-
Issuance of treasury share	-	-	-	20,000,000	-	-	20,000,000	(20,000,000)	-
Share based payment expense	-	-	1,600,000	-	-	-	1,600,000	-	1,600,000
	<u>80,000,000</u>	<u>(20,000,000)</u>	<u>1,600,000</u>	<u>(124,000,000)</u>	<u>-</u>	<u>-</u>	<u>(62,400,000)</u>	<u>(20,000,000)</u>	<u>(82,400,000)</u>
<b>Balance as at December 31, 2018</b>	<b><u>500,000,000</u></b>	<b><u>21,221,944</u></b>	<b><u>1,600,000</u></b>	<b><u>140,861,047</u></b>	<b><u>(108,461)</u></b>	<b><u>2,008,873</u></b>	<b><u>665,583,403</u></b>	<b><u>(20,000,000)</u></b>	<b><u>645,583,403</u></b>

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 March 3, 2019.

\_\_\_\_\_  
Chief Financial Officer

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Chairman

The accompanying notes 1 to 33 form an integral of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	December 31, 2018 SR	December 31, 2017 SR
<b><u>Cash flows from operating activities:</u></b>		
Net profit for the year	161,192,029	140,138,529
<i>Adjustments for:</i>		
Depreciation of property and equipment	35,017,145	39,186,363
Amortization of intangible assets	5,720,821	5,070,012
Loss from disposal of fixed assets	480,813	368,629
Property and equipment written off	165,399	-
Inventories written off	858,492	-
Deferred revenue on sale and leaseback	(136,596)	(136,596)
Deferred revenue from extended warranty program	8,443,322	14,966,061
Finance cost	10,170,222	2,508,219
Impairment recognized on installment sales receivable, net	13,906,799	6,191,070
Impairment recognized on trade and other assets, net	-	133,849
Impairment recognized against inventories	10,785,836	7,569,549
Zakat expense	7,963,413	4,700,096
End of service benefits	10,797,533	10,695,797
Operating lease liability	2,449,218	1,877,613
Deferred tax	873,992	602,091
	<b>268,688,438</b>	<b>233,871,282</b>
<b><u>Changes in:</u></b>		
Trade and other assets	(36,538,345)	(4,480,847)
Installment sales receivables	(211,532,261)	(77,486,892)
Inventories	63,434,605	(346,404,757)
Trade and other payables	(32,406,885)	73,250,627
<b><i>Cash from (used in) operations</i></b>	<b>51,645,552</b>	<b>(121,250,587)</b>
End of service benefits paid	(10,303,286)	(5,189,982)
Finance cost paid	(10,170,222)	(2,508,219)
Zakat paid	(5,451,533)	(2,919,605)
<b>Net cash from (used in) operating activities</b>	<b>25,720,511</b>	<b>(131,868,393)</b>
<b><u>Cash flows from investing activities</u></b>		
Additions to property and equipment	(59,517,638)	(46,145,825)
Proceeds from disposal of property and equipment	257,160	24,913
Additions to intangible assets	(8,360,022)	(13,545,680)
<b>Net cash used in investing activities</b>	<b>(67,620,500)</b>	<b>(59,666,592)</b>
<b><u>Cash flows from financing activities:</u></b>		
Drawdown of Murabaha loan	1,405,000,000	600,000,000
Repayment of Murabaha loan	(1,145,000,000)	(400,000,000)
Dividend paid	(84,000,000)	(31,500,000)
Repayment of finance lease	(47,155)	(5,850)
<b>Net cash generated from financing activities</b>	<b>175,952,845</b>	<b>168,494,150</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS – (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	December 31, 2018	December 31, 2017
	SR	SR
<b>Net change in cash and cash equivalents</b>	<b>134,052,856</b>	<b>(23,040,835)</b>
Effects of foreign exchange translation on cash and cash equivalents	(7,306)	3,486
Cash and cash equivalent at the beginning of the year	77,160,609	100,197,958
<b>Cash and cash equivalents at end of the year</b>	<b>211,206,159</b>	<b>77,160,609</b>
<b>Non-cash transaction :</b>		
Impact of early adoption of IFRS 15 on deferred revenue from additional service program	-	(71,242,730)
Insurance claim receivable for property and equipment	3,182,137	-
Insurance claim receivable for inventories	16,311,055	-
Property and equipment written off	5,084,199	-
Impact of adoption of IFRS 9	(479,953)	-
Employee share option plan	1,600,000	-
Property and equipment acquired on finance lease	(470,400)	(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 March 3, 2019.

\_\_\_\_\_  
**Chief Financial Officer**

\_\_\_\_\_  
**Chief Executive Officer**

\_\_\_\_\_  
**Chairman**

The accompanying notes 1 through 33 form an integral part of these consolidated financial statements.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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**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 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.

On 8 Muharam 1440H (corresponding to September 18, 2018) the Extraordinary General Meeting approved the increase of the Company's share capital by SR 80 million via a transfer from the retained earnings and the statutory reserve of the fiscal year ended 31 December 2017. Accordingly, the share capital increased from SR 420 million to SR 500 million, and number of shares increased from 42 million shares to 50 million shares. Details of increase are as follow:

- 1) Distribution of 6 million shares as bonus shares to the shareholders at one share for every seven existing shares which represents an increase of 14.29% of the company's share capital, and will be entitled to the shareholders registered at the end of the date of the meeting (registered shareholders in the Company's shareholding register with the Securities Depository Center at the end of the second trading day following the day of the Extraordinary General Meeting).
- 2) Allocation of 2 million shares representing 4.76% of the Company's share capital to establish the employees' stock program (long-term incentive plan).

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.

**1.1. Structure of the group**

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

<u>Name of consolidated subsidiaries</u>	<u>Effective ownership</u>
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%
4- United Company for Financial Services. a Co. registered in Kingdom of Saudi Arabia	100%

The above mentioned 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 1432H (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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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

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

- 3- United Company for Maintenance Services 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.
- 4- During the year, the Company invested SR 150 million to establish a new Company under the name "United Company for Financial Services". The principal activities of the Company are to exercise consumer finance in the Kingdom of Saudi Arabia in accordance with implementations regulation of the finance lease law and its Sharia compliant. The operations of the Company is subject to the approval of Saudi Arabian Monetary Authority (SAMA).

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

As at December 31, 2018, the Group had a total of 43 branches (December 31, 2017: 43 branches) out of which 40 operational branches are in the Kingdom of Saudi Arabia (December 31, 2017: 40 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") as endorsed in Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

**2.2 Preparation of the consolidated financial statements**

The accompanying consolidated financial statements have been prepared on the historical cost convention except for the end of service benefits which are recognized at the present value of future obligation using the projected unit credit method.

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 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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**2. BASIS OF PREPARATION (Continued)**

**2.3 Basis of consolidation (Continued)**

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.

**2.3.1 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 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).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**2. BASIS OF PREPARATION (Continued)**

**2.4 New standards and amendments**

**2.4.1 Standards issued and applied effective January 1, 2018**

The group had early adopted IFRS 15 – Revenue from contracts with customer effective January 1, 2017. The application of IFRS 15 was made under the modified retrospective approach as permitted by the standards. The modified retrospective application requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as of the adoption date. The application of this standard 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).

IFRS 9 became applicable for the current reporting year and the Company had accordingly adjusted its accounting policies as a result of adopting IFRS 9. The impact of the adoption of this new standard and the new accounting policies are disclosed in note 3. The other standards did not have any impact on the Group's accounting policies.

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

New and revised IFRSs	Description	Effective for annual periods beginning on or after
IFRS 16	Leases	January 1, 2019
IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
IAS 28	Amendment long-term Interests in Associates and Joint Ventures	January 1, 2019
IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
IFRS 9	Amendments - Prepayment features with negative compensation & modification of financial liabilities	January 1, 2019

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 may have no material impact on the consolidated financial statements of the Group in the period of initial application except for the impact of IFRS 16.

The group has set up a project team which has reviewed all of the group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16 that will affect primarily the accounting for the group's operating leases.

The Group's initial assessment has estimated the potential effects of the adoption of IFRS 16, as the effects of the application may change at 1 January 2019 after the final assessment.

IFRS 16, effective 1 January 2019, will be adopted by the Group and will be applied modified retrospectively with the cumulative effect of the initial application as an adjustment to the opening balance of retained earnings as at 1 January 2019 and will not restate the comparative figures for 2018 as permitted by transition provisions specified in the Standard.

The expected impact of adoption of IFRS 16 using modified retrospective transition approach is expected to result in an increase in assets amounting to SR 439,908,005, a corresponding increase in liabilities amounting to SR 523,756,473 as at 1 January 2019 with a total decrease in equity amounting to SR 83,848,468 as of January 1, 2019. Adoption will also result in an estimated reduction of operating expenses for the year ended 31 December 2019 of SR 33,184,349 and an increase in finance costs amounting to SR 42,955,233.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018

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2. BASIS OF PREPARATION (Continued)

2.4.3 Changes in accounting policies

The Group has adopted IFRS 9 “financial instruments” effective January 1, 2018 while IFRS 15 was early adopted effective January 1, 2017. IFRS 9 sets out the requirements for the recognition and measurement of financial assets and financial liabilities. Due to transition method applied by the group, no restatement of comparative figures was made. The key changes to the Company’s accounting policies resulting from the adoption of IFRS 9 are set as follows:

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

The standard eliminates the existing IAS 39 categories of held-to-maturity, loan and receivables and available-for-sale. The classification of financial assets under IFRS 9 is generally based on the business model in which the financial asset is managed together with its relevant contractual cash flow characteristics. IFRS 9 largely retains the existing requirements in IAS 39 for classification and measurement of financial liabilities.

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model (“ECL”). The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

**Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied under modified retrospective approach.

**a) Classification of financial assets**

On initial recognition, a financial asset is classified and measured at Amortized Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL). However, the Group as of the reporting date, only holds financial assets measured at amortized cost. These assets are subsequently measured at fair value net of loss on impairment.

**Financial Asset at amortized cost**

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

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

**Business model assessment**

The Company assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Company’s management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company’s stated objective for managing the financial assets is achieved and how cash flows are realized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018

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2. BASIS OF PREPARATION (Continued)

2.4.3 Changes in accounting policies (Continued)

*Business model assessment (Continued)*

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading, if any, and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

*Assessments whether contractual cash flows are solely payments of principal and profit*

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

**b) Classification of financial liabilities**

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Interest Rate (EIR).

*De-recognition*

**Financial assets**

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

**c) Impairment**

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its installment sale receivables carried at amortized cost.

The Group assess impairment "based on three stages model" categorization as follows:

▪ **Stage 1 (DPD 0 - 30)**

Includes installment sale receivables that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-months ECL are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

▪ **Stage 2 (DPD 31 - 90)**

Includes installment sale receivables that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these asset, lifetime ECL are recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of installment receivables. Expected credit losses are the weighted average credit losses with the PD as the weight.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018

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2. BASIS OF PREPARATION (Continued)

2.4.3 Changes in accounting policies (Continued)

c) Impairment (Continued)

▪ Stage 3 (DPD 90+)

Include financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

**Significant increase in credit risk (SICR):**

IFRS9 requires management, when determining whether the credit risk on a financial instrument has increased significantly, to consider reasonable and supportable information available in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial statement.

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are calculated by cumulative effect of Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- "Default", The Group considers a financial asset to be in default when: (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse; or (ii) the borrower is past due more than 30 days on any material credit obligation to the Group.
- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL allowance is affected by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in Probability of Default PDs, Exposure at Default (EADs) and Loss Given Default (LGDs) in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The Group has identified and documented key drivers of credit risk and credit losses and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2018 included the following key indicators.

- GDP growth
- Inflation rate

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**2. BASIS OF PREPARATION (Continued)**

**2.4.3 Changes in accounting policies (Continued)**

**c) Impairment (Continued)**

Write off

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

For trade and other assets, which are considered as low risk by Group with an average credit period of 30 days, the Group uses the simplified approach whereby the expected credit losses are based on the credit loss expected over the lives of these assets. The Group has prepared a provision matrix based on its previous experience adjusted to account for receivables future outlook and the respective economic conditions.

Installment sales receivables

The measurement of the expected credit loss allowance for installment sales receivable measured at amortized cost, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

**2.4.4 Impact of change in accounting policies due to adoption of new standard**

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below:

**i) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9**

The following table reconciles the prior year's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Impairment allowance under IAS 39	Re-measurement	Impairment allowance under IFRS 9
	SR	SR	SR
Trade and other assets	1,720,417	-	1,720,417
Installment sales receivables	16,571,657	479,953	17,051,610
	<u>18,292,074</u>	<u>479,953</u>	<u>18,772,027</u>

**ii) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9**

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
<b>Financial assets</b>				
Cash and cash equivalents	Amortized cost	Amortized cost	77,160,609	77,160,609
Trade and other assets	Amortized cost	Amortized cost	59,137,104	59,137,104
Installment sales receivables	Amortized cost	Amortized cost	152,331,713	151,851,760
			<u>288,629,426</u>	<u>288,149,473</u>
<b>Financial liabilities</b>				
Trade and other payables	Amortized cost	Amortized cost	694,669,308	694,669,308
Murabaha Loan	Amortized cost	Amortized cost	200,000,000	200,000,000
Finance lease liability	Amortized cost	Amortized cost	123,150	123,150
			<u>894,792,458</u>	<u>894,792,458</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**2. BASIS OF PREPARATION (Continued)**

**2.4.4 Impact of change in accounting policies due to adoption of new standard (Continued)**

**iii) Impact on retained earnings**

	<u>Retained Earnings</u>
Closing balance under IAS 39 (December 31, 2017)	120,268,174
Recognition of expected credit losses under IFRS 9	(479,953)
Opening balance under IFRS 9 (January 1, 2018)	<u>119,788,221</u>

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**3.1 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.

**3.1.1 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 contract 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.

**3.1.2 Revenue from additional service program**

The Group provides additional service 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.1 Revenue recognition (Continued)**

**3.1.3 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 (except. changes in the assessment of the customer's credit risk).

**3.1.4 Sales returns**

It is the group's policy to sell its products to the end customer with a right of return within 7 days. Therefore, a refund liability and a right to the returned goods are recognized for historical experience of the group. Considering the amount of returns to be immaterial, hence no refund liability is recognized at the time of sale.

**3.2 Expenses**

Distribution expenses principally comprise of costs incurred in the distribution and delivery of the Group's products.

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

Administrative expenses include 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.

**3.3 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 year, adjusted for own shares held. For the diluted earnings per share, it is calculated by adjusting the weighted average number of ordinary shares in issue assuming the conversion of all dilutive potential ordinary shares, which includes the treasury shares issued to establish the employees' stock program and conversion of treasury shares into ordinary shares upon entitlement.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.4 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.

**3.4.1 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.

**3.4.2 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.

**3.5 Foreign currency translations**

**3.5.1 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.

**3.5.2 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 the 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.5.3 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".

**3.6 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.

**3.7 Employee benefits**

**3.7.1 End of services benefits**

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 the 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.

**3.7.2 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.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.8 Zakat and income tax**

**3.8.1 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.

**3.8.2 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 as per applicable tax law. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**3.8.3 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.

**3.9 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.9 Segmental reporting**

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.

**3.10 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. Costs includes professional fees and, for qualifying assets, borrowing costs which are 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:

<u>Item</u>	<u>Estimated useful lives/Years</u>
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.

**3.11 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.11.1 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 the consolidated statement of profit or loss when the asset is derecognized.

**3.12 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.

**3.13 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost of inventories is 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.

**3.14 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.15 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.

**3.16 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.

**3.17 Treasure shares**

Own equity instruments (treasury shares), for discharging obligations under the Employee Stock Option Program ("ESOP"), are recognized at cost and presented as a deduction from equity and are adjusted for any transaction costs, dividends and gains or losses on sale of such shares.

**3.18 Share-based scheme**

Employees of the Group receive remuneration in the form of equity settled share based payments under the ESOP, whereby employees render services as consideration for the option to purchase fixed number of Company's shares ("Option") at a predetermined price.

The cost of ESOP is recognised as an expense in the Consolidated Statement of Profit or Loss, together with a corresponding increase in other reserves, in equity, over the period during which the service conditions are fulfilled.

The Group has set up an economic hedge by issuing Treasury Shares at inception of the ESOP. Accordingly, the Other Reserves (representing the cumulative expense arising from ESOP) is transferred into Retained Earnings upon expiry of the ESOP, whether or not the Options vest to the employees.

The cumulative expense recognised for ESOP at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of Options that will ultimately vest.

When the terms of the ESOP are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share based payment transaction, or is otherwise beneficial to the employee as measured at the date of the modification.

When the ESOP is terminated, it is treated as if the Options vested on the date of termination, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new ESOP is substituted for the terminated ESOP, and designated as a replacement award on the date that it is granted, the terminated and new ESOPs are treated as if they were a modification of the original ESOP, as described in the previous paragraph.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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**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.

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 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.

**4.2 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, 2018.

**4.3 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.

**4.4 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.

**4.5 Impairment of financial assets**

The loss allowances for financial assets are based on assumptions about risk of default and unexpected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**5. PROPERTY AND EQUIPMENT**

The movement of the property and equipment for the year ended December 31, 2018 is as follows:

	<u>Land</u>	<u>Buildings and leasehold improvement</u>	<u>Furniture, fixtures and office equipment</u>	<u>Motor vehicles</u>	<u>Capital work in progress</u>	<u>Total</u>
	SR	SR	SR	SR	SR	SR
<b>Cost:</b>						
Balance at 1 January 2018	101,547,669	352,890,852	230,925,914	25,927,567	18,374,515	729,666,517
Additions	9,341,391	9,151,075	18,231,718	372,888	22,890,966	59,988,038
Transfers of capital work in progress	-	8,203,816	4,298,915	653,920	(13,156,651)	-
Damaged assets	-	(3,426,200)	(4,445,972)	-	-	(7,872,172)
Disposals	-	(7,443,357)	(4,098,264)	(2,437,380)	-	(13,979,001)
Balance at 31 December 2018	<u>110,889,060</u>	<u>359,376,186</u>	<u>244,912,311</u>	<u>24,516,995</u>	<u>28,108,830</u>	<u>767,803,382</u>
<b>Accumulated Depreciation:</b>						
Balance at 1 January 2018	-	94,482,982	175,854,036	18,155,162	-	288,492,180
Depreciation charge for the year	-	14,893,153	18,144,757	1,979,235	-	35,017,145
Damaged assets	-	(1,058,708)	(3,505,178)	-	-	(4,563,886)
Disposals	-	(2,228,930)	(3,847,316)	(2,041,333)	-	(8,117,579)
Balance at 31 December 2018	<u>-</u>	<u>106,088,497</u>	<u>186,646,299</u>	<u>18,093,064</u>	<u>-</u>	<u>310,827,860</u>
<b>Net Book Value:</b>						
At 31 December 2018	<u>110,889,060</u>	<u>253,287,689</u>	<u>58,266,012</u>	<u>6,423,931</u>	<u>28,108,830</u>	<u>456,975,522</u>
At 31 December 2017	<u>101,547,669</u>	<u>258,407,870</u>	<u>55,071,878</u>	<u>7,772,405</u>	<u>18,374,515</u>	<u>441,174,337</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**5. PROPERTY AND EQUIPMENT (Continued)**

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

	<u>Land</u>	<u>Buildings and leasehold improvement</u>	<u>Furniture, fixtures and office equipment</u>	<u>Motor vehicles</u>	<u>Capital work in progress</u>	<u>Total</u>
	SR	SR	SR	SR	SR	SR
<b><u>Cost:</u></b>						
Balance at 1 January 2017	101,547,669	318,020,345	219,719,216	24,882,782	22,047,193	686,217,205
Additions	-	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	<u>101,547,669</u>	<u>352,890,852</u>	<u>230,925,914</u>	<u>25,927,567</u>	<u>18,374,515</u>	<u>729,666,517</u>
<b><u>Accumulated Depreciation:</u></b>						
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	<u>-</u>	<u>94,482,982</u>	<u>175,854,036</u>	<u>18,155,162</u>	<u>-</u>	<u>288,492,180</u>
<b><u>Net Book Value:</u></b>						
At 31 December 2017	<u>101,547,669</u>	<u>258,407,870</u>	<u>55,071,878</u>	<u>7,772,405</u>	<u>18,374,515</u>	<u>441,174,337</u>
At 31 December 2016	<u>101,547,669</u>	<u>239,591,949</u>	<u>62,541,263</u>	<u>9,332,506</u>	<u>22,047,193</u>	<u>435,060,580</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**5. PROPERTY AND EQUIPMENT (Continued)**

Depreciation for the year has been allocated as under:

	<b>December 31, 2018 SR</b>	<b>December 31, 2017 SR</b>
Selling, marketing and distribution expenses (Note 21)	31,478,982	35,464,927
Administrative expenses (Note 22)	3,538,163	3,721,436
	<b>35,017,145</b>	<b>39,186,363</b>

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

	<b>December 31, 2018 SR</b>	<b>December 31, 2017 SR</b>
Cost - capitalized finance leases	599,400	129,000
Accumulated depreciation	(57,840)	(8,000)
Net book value	<b>541,560</b>	<b>121,000</b>

**6. INTANGIBLE ASSETS**

The movement of intangible assets is as follows:

	<b>December 31, 2018 SR</b>	<b>December 31, 2017 SR</b>
Cost	78,942,087	70,582,035
Accumulated amortization	(37,027,279)	(31,306,428)
Amortized value	<b>41,914,808</b>	<b>39,275,607</b>
<b>Reconciliation of amortized value</b>		
Opening balance	39,275,607	30,218,776
Addition	8,360,022	13,545,680
Amortization	(5,720,821)	(5,070,012)
Transfer	-	581,163
	<b>41,914,808</b>	<b>39,275,607</b>

Amortization for the year has been allocated as under:

	<b>December 31, 2018 SR</b>	<b>December 31, 2017 SR</b>
Selling, marketing and distribution expenses (Note no. 21)	624,877	492,391
Administrative expenses (Note no. 22)	5,095,944	4,577,621
	<b>5,720,821</b>	<b>5,070,012</b>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018

7. TRADE AND OTHER ASSETS

Trade and other assets comprise of the following:

	December 31, 2018 SR	December 31, 2017 SR
Trade receivables	33,623,300	9,405,512
Less: impairment of trade receivables	<u>(2,507,355)</u>	<u>(1,720,417)</u>
Net trade receivables	31,115,945	7,685,095
Prepaid rent	24,600,480	27,603,718
Advances to suppliers	6,825,209	1,241,061
Prepaid government and recruitment charges	6,587,388	3,329,353
Employee receivables	5,988,428	6,996,858
Prepaid insurance	2,774,171	2,739,049
Claim Receivable and refundable deposits	23,203,905	1,590,638
Prepaid marketing and license fee	1,142,646	1,189,669
Other assets	12,945,095	7,201,905
Less: allowance for impairment	<u>(14,626)</u>	<u>(440,242)</u>
	<u>115,168,641</u>	<u>59,137,104</u>
<b>Less: non-current portion</b>		
Prepaid rent	(2,990,457)	(6,083,776)
Employees receivable	<u>(1,152,038)</u>	<u>(1,645,851)</u>
<b>Total non-current portion</b>	<u>(4,142,495)</u>	<u>(7,729,627)</u>
<b>Total current portion, net</b>	<u>111,026,146</u>	<u>51,407,477</u>

Other assets include prepaid LC charges, governmental charges, subscription charges, insurance claims and receivable from vendors.

Total receivables below are past due but not impaired:

	December 31, 2018 SR	December 31, 2017 SR
1 to 90 days	19,602,866	874,218
91 to 180 days	-	-
Average receivables (days)	30 Days	30 Days

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

	December 31, 2018 Gross SR	December 31, 2018 Impairment SR	December 31, 2017 Gross SR	December 31, 2017 Impairment SR
Not past due	-	-	6,810,876	-
Past due 1-90 days	5%	20,713,602	(1,110,736)	1,177,883
Past due 91-180 days	100%	62,676	(62,676)	140,312
Above 180 days	100%	1,333,943	(1,333,943)	1,276,441
	<u>33,623,300</u>	<u>(2,507,355)</u>	<u>9,405,512</u>	<u>(1,720,417)</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**7. TRADE AND OTHER ASSETS (Continued)**

The average credit period on sales of goods is 30 days. No interest is charged on trade receivables. 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, 2018, three of the company's major customers comprise 77.5% of the net trade receivables balance (December 2017: four of major customers comprise 89% of the net trade receivables balance). There are no other customers who represent more than 7% of the total balance of trade receivables (December 31, 2017: 4%).

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

	December 31, 2018 SR	December 31, 2017 SR
Opening balance	1,720,417	1,586,568
Allowance for the year	1,230,237	136,171
Recovered for the year	(443,299)	(2,322)
Closing balance	<u>2,507,355</u>	<u>1,720,417</u>

**8. INSTALLMENT SALES RECEIVABLE**

Details of sales installment receivables are as follows:

	December 31, 2018 SR	December 31, 2017 SR
Installment sales receivable	380,356,377	168,903,370
Less: allowance for impairment	(30,879,155)	(16,571,657)
Net installment sales receivable	349,477,222	152,331,713
Less: non-current portion included in non-current assets	(87,340,613)	(30,789,790)
Installment sales receivable, net - current portion	<u>262,136,609</u>	<u>121,541,923</u>

The average credit installment granted is SR 9,410 at pre-determined rate.

As at December 31, 2018, stage wise installment sales receivable balances and the respective ECL are as follows:

	Stage 1	Stage 2	Stage 3	Total	December 31, 2017
Installment sales receivables	318,993,021	26,264,575	35,098,781	380,356,377	168,903,370
Allowance for impairment	(4,313,315)	(3,915,854)	(22,649,986)	(30,879,155)	(16,571,657)
	<u>314,679,706</u>	<u>22,348,721</u>	<u>12,448,795</u>	<u>349,477,222</u>	<u>152,331,713</u>

During the year, there has been no transfer between stage 1, stage 2 and stage 3.

Movement in the allowance for impairment

	December 31, 2018 SR	December 31, 2017 SR
Opening balance	16,571,657	10,530,741
Impact of adoption of IFRS 9	479,953	-
Impairment for the year	13,906,799	6,191,070
Utilized allowance	(79,254)	(150,154)
Closing balance	<u>30,879,155</u>	<u>16,571,657</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018

9. INVENTORIES

	December 31, 2018 SR	December 31, 2017 SR
Trade inventories	775,961,750	872,008,490
Inventory in transit	8,656,423	4,607,463
Spare parts	8,076,771	8,473,480
	<u>792,694,944</u>	<u>885,089,433</u>
Allowance for inventories	<u>(1,204,253)</u>	<u>(2,208,754)</u>
	<u>791,490,691</u>	<u>882,880,679</u>

Movement in the allowance for inventories is as follows:

	December 31, 2018 SR	December 31, 2017 SR
Opening balance	2,208,754	2,758,555
Addition for the year	12,782,823	7,738,275
Utilized against inventories written off	(11,790,337)	(8,119,350)
Reversal for the year	(1,996,987)	(168,726)
Closing balance	<u>1,204,253</u>	<u>2,208,754</u>

10. CASH AND CASH EQUIVALENTS

	December 31, 2018 SR	December 31, 2017 SR
Cash at banks	197,887,675	60,523,713
Cash on hand	13,318,484	16,636,896
	<u>211,206,159</u>	<u>77,160,609</u>

11. SHARE CAPITAL

	December 31, 2018 SR	December 31, 2017 SR
Authorized, issued and fully paid	<u>500,000,000</u>	<u>420,000,000</u>
No. of shares SR 10 each	50,000,000	42,000,000
Issued and fully paid during the year	<u>80,000,000</u>	<u>60,000,000</u>
No. of shares (SR 10 each)	8,000,000	6,000,000
Treasury share	<u>(20,000,000)</u>	-
No. share of SR 10 each	(2,000,000)	-
<i>Reconciliation of number of shares outstanding</i>		
Opening balance	42,000,000	36,000,000
Shared issued (note 1)	8,000,000	6,000,000
Treasury shares (note 28)	<u>(2,000,000)</u>	-
Closing balance	<u>48,000,000</u>	<u>42,000,000</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**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. BANK FACILITIES**

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. DEFERRED REVENUE FROM EXTENDED WARRANTY PROGRAM**

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, 2018 SR	December 31, 2017 SR
Deferred revenue - Current portion	52,396,359	46,578,052
Deferred revenue - Non-current portion	67,075,257	64,450,242
	<b>119,471,616</b>	<b>111,028,294</b>

Movement of extended warranty service is as follows,

	December 31, 2018 SR	December 31, 2017 SR
Balance as of January 1	111,028,294	24,819,503
Contracts issued during the year	63,873,865	66,597,785
IFRS 15 impact (note no. 2.4.1)	-	71,242,730
Revenue recognition during the year	(55,430,543)	(51,631,724)
Balance as of December 31	<b>119,471,616</b>	<b>111,028,294</b>

**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, 2018 SR	December 31, 2017 SR
Current portion	136,596	136,596
Non-current portion	1,844,179	1,980,775
	<b>1,980,775</b>	<b>2,117,371</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**16. OPERATING LEASE ARRANGEMENTS**

The Group has entered into operating lease agreement for Land/building/employee accommodation for time period between 1 year to 21 years. The Group holds no right to acquire this property at the end of the contract.

	<b>December 31, 2018 SR</b>	<b>December 31, 2017 SR</b>
Expenses recognized against leasing Arrangements	<b>78,466,643</b>	<b>63,301,500</b>

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

	<b>December 31, 2018 SR</b>	<b>December 31, 2017 SR</b>
Not later than 1 year	<b>88,949,975</b>	<b>67,258,183</b>
Later than 1 year and not later than 5 years	<b>303,797,693</b>	<b>308,491,830</b>
Later than 5 years	<b>589,587,446</b>	<b>476,029,461</b>
	<b><u>982,335,114</u></b>	<b><u>851,779,474</u></b>

The operating lease liability as of December 31, 2018 and 2017 represent the balance related to recognition of lease liability expense on adoption of IFRS.

**17. END OF SERVICE BENEFITS**

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

	<b>December 31, 2018 SR</b>	<b>December 31, 2017 SR</b>
Opening balance as at January 1	<b>56,517,424</b>	<b>51,824,772</b>
Expense charge for the year	<b>10,797,533</b>	<b>10,695,797</b>
Re-measurement gain	<b>(1,195,710)</b>	<b>(813,163)</b>
Payment	<b>(10,303,286)</b>	<b>(5,189,982)</b>
Closing balance	<b><u>55,815,961</u></b>	<b><u>56,517,424</u></b>

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

	<b>December 31, 2018 SR</b>	<b>December 31, 2017 SR</b>
Current service cost	<b>8,747,627</b>	<b>8,795,324</b>
Interest cost	<b>2,049,906</b>	<b>1,900,473</b>
Cost recognized in profit and loss	<b><u>10,797,533</u></b>	<b><u>10,695,797</u></b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018

17. END OF SERVICE BENEFITS (Continued)

	December 31, 2018 SR	December 31, 2017 SR
<b>Principal actuarial assumptions</b>		
Discount factor used	5.17%	3.50%
<b>Salary increase rate</b>		
Year 1	3.00%	2.20%
Year 2 & onwards	3.00%	2.00%
Rates of employee turnover	HIGH	HIGH

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

	December 31, 2018		December 31, 2017	
	Percentage	SR	Percentage	SR
<b>Discount rate</b>				
Increase	0.50%	53,958,912	0.50%	53,842,765
Decrease	-0.50%	61,798,383	-0.50%	59,387,467
<b>Expected rate of salary</b>				
Increase	0.50%	57,812,993	0.50%	59,416,816
Decrease	-0.50%	53,928,428	-0.50%	53,792,496

18. TRADE AND OTHER PAYABLES

Trade and other payables comprise of the following:

	December 31, 2018 SR	December 31, 2017 SR
Trade payables	501,441,979	538,481,680
Accrual for employee costs	45,726,513	40,557,565
Gift cards	35,491,754	37,343,907
Advance from customers	20,483,288	21,902,022
Accrual for utilities and other charges	13,094,781	13,548,152
Non trade payables	2,511,164	8,119,278
Value added tax (VAT)	8,052,397	-
Others	28,776,348	34,716,704
	<b>655,578,224</b>	<b>694,669,308</b>

Other accrued liabilities include liabilities for supply chain and online delivery expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018

19. ZAKAT

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

	December 31, 2018 SR	December 31, 2017 SR
Opening Share capital	420,000,000	360,000,000
Reserves and opening provisions less utilized	165,936,105	128,552,872
Retained earnings	35,788,221	30,643,498
Income subjected for zakat	195,702,539	181,124,693
Closing value of long-term assets	(498,890,330)	(486,065,342)
Zakat base	318,536,535	214,255,721
Zakat due at 2.5%	7,963,413	5,356,393

Movement in provision for zakat is as follows:

	December 31, 2018 SR	December 31, 2017 SR
At January 1,	5,388,493	3,608,002
Provision for the year	7,963,413	4,700,096
Payments	(5,451,533)	(2,919,605)
As at December 31,	7,900,373	5,388,493

**Zakat assessment:**

The Company received on January 8, 2018, the final assessment for years 2006 to 2010 from the General Authority of Zakat and Tax ("GAZT") that claimed an additional zakat and tax liability of SR 24 million. The Company has filed an objection to the above-mentioned assessment and obtained a revised assessment of SR 322,278 which was settled during the year. Assessment for years 2011 to 2017 still under review by the General Authority of Zakat and Tax ("GAZT"). The Company obtained the zakat certificate for the year ended December 31, 2017.

Subsequent to the year end, on February 18, 2019 the Company received an assessment for the year 2017 from General Authority of Zakat and Tax ("GAZT") claiming zakat and tax of SR 26.2 million. Currently, the management and its zakat consultants are working to file an objection and believe that the outcome of this objection will be in the favor of the Company, accordingly, no additional provision was provided.

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 year ended December 31, 2018 and December 31, 2017 are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018

20. SEGMENTAL REPORTING (Continued)

For the year ended December 31, 2018

<u>December 31, 2018</u>	<u>Inside the Kingdom of Saudi Arabia</u>	<u>Outside the Kingdom of Saudi Arabia</u>	<u>Consolidation adjustments</u>	<u>Total</u>
Revenue, net	4,113,481,810	281,354,024	(755,428)	4,394,080,406
Cost of revenue	(3,371,456,466)	(243,766,596)	755,428	(3,614,467,634)
Gross profit	742,025,344	37,587,428	-	779,612,772
Net profit	161,273,544	2,118,106	(2,199,621)	161,192,029

Financial position as at December 31, 2018

<u>December 31, 2018</u>	<u>Inside the Kingdom of Saudi Arabia</u>	<u>Outside the Kingdom of Saudi Arabia</u>	<u>Consolidation adjustments</u>	<u>Total</u>
Current assets	1,390,710,151	54,220,328	(69,070,874)	1,375,859,605
Non-current assets	659,663,010	65,298,036	(134,587,608)	590,373,438
Total Assets	2,050,373,161	119,518,364	(203,658,482)	1,966,233,043
Current liabilities	1,123,816,997	123,352,886	(69,070,874)	1,178,099,009
Non-current liabilities	130,692,856	11,857,775	-	142,550,631
Total Liabilities	1,254,509,853	135,210,661	(69,070,874)	1,320,649,640

For year ended December 31, 2017

<u>December 31, 2017</u>	<u>Inside the Kingdom of Saudi Arabia</u>	<u>Outside the Kingdom of Saudi Arabia</u>	<u>Consolidation adjustments</u>	<u>Total</u>
Revenue, net	3,964,147,897	248,406,320	(2,773,758)	4,209,780,459
Cost of revenue	(3,289,097,955)	(213,180,920)	2,773,758	(3,499,505,117)
Gross profit	675,049,942	35,225,400	-	710,275,342
Net profit / (loss)	140,237,775	(195,879)	96,633	140,138,529

Financial position as at December 31, 2017

<u>December 31, 2017</u>	<u>Inside the Kingdom of Saudi Arabia</u>	<u>Outside the Kingdom of Saudi Arabia</u>	<u>Consolidation adjustments</u>	<u>Total</u>
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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**21. SELLING, MARKETING AND DISTRIBUTION EXPENSES**

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

	<b>December 31,</b> <b>2018</b> <b>SR</b>	<b>December 31,</b> <b>2017</b> <b>SR</b>
Salaries, wages and other employee benefits	<b>230,365,343</b>	201,430,099
Rent	<b>78,228,643</b>	69,922,551
Advertising and other related cost	<b>33,128,124</b>	31,567,109
Depreciation	<b>31,478,982</b>	35,464,927
Utilities, printing and stationary	<b>26,602,816</b>	28,023,302
Bank commission on credit/debit card sales	<b>15,126,591</b>	16,763,721
Provision for impairment of sales installment receivables	<b>13,906,799</b>	6,191,070
Delivery charges	<b>11,916,999</b>	12,398,023
Repair and maintenance	<b>9,451,555</b>	9,904,661
Security services and cash pick up charges	<b>8,707,685</b>	8,883,210
Cleaning services	<b>6,475,802</b>	7,541,966
Travel and accommodation	<b>2,170,028</b>	1,486,582
Legal expenses	<b>726,124</b>	2,513,653
Amortization	<b>624,877</b>	492,391
Others	<b>11,581,693</b>	13,404,842
	<b>480,492,061</b>	<b>445,988,107</b>

**22. GENERAL AND ADMINISTRATION EXPENSES**

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

	<b>December 31,</b> <b>2018</b> <b>SR</b>	<b>December 31,</b> <b>2017</b> <b>SR</b>
Salaries, wages and other employee benefits	<b>88,628,009</b>	81,692,641
Repair and maintenance	<b>7,580,703</b>	5,578,072
Amortization	<b>5,095,944</b>	4,577,621
Depreciation	<b>3,538,163</b>	3,721,436
Utilities, printing and stationary	<b>2,466,106</b>	1,924,010
Legal and consultancy	<b>2,106,303</b>	2,245,041
Travel and accommodation and communication	<b>2,001,922</b>	1,595,497
Cleaning services	<b>427,291</b>	586,712
Rent	<b>238,000</b>	238,000
Security and cash pickup	<b>102,888</b>	136,800
Others	<b>6,936,817</b>	5,692,927
	<b>119,122,146</b>	<b>107,988,757</b>

**23. OTHER EXPENSES**

	<b>December 31,</b> <b>2018</b> <b>SR</b>	<b>December 31,</b> <b>2017</b> <b>SR</b>
Inventories written off	<b>858,492</b>	-
Loss on Property and equipment disposals	<b>480,813</b>	368,629
Property and equipment written off	<b>165,399</b>	-
Unrealized exchange rate losses	<b>105,890</b>	61,305
Renovation expenses	<b>-</b>	9,600,293
	<b>1,610,594</b>	<b>10,030,227</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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24. OTHER INCOME

	December 31, 2018 SR	December 31, 2017 SR
Cross charge income	135,882	-
Scrap sales	100,542	106,030
Cash overage	6,549	274,991
Others	1,568,712	1,299,663
	<u>1,811,685</u>	<u>1,680,684</u>

25. FINANCIAL COST

	December 31, 2018 SR	December 31, 2017 SR
Finance charges – Interest on loan	10,165,821	2,507,694
Finance charges – Bank charges	4,401	525
	<u>10,170,222</u>	<u>2,508,219</u>

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.

During the year ended December 31 2018, the Company had the following significant transactions with its related parties.

Entity	Relationship
Al Fozan Holding Company	Shareholder
Abdullatif and Mohamed Al Fozan Co.	Affiliate of a shareholder
United Homeware Company	Affiliate of a shareholder
Madar Building Materials Co.	Affiliate of a shareholder
Madar Electrical Materials Co.	Affiliate of a shareholder
Integrated Distribution Solutions Company	Affiliate of a shareholder
Madar Tools & Equipment Co.	Affiliate of a shareholder
Retal Urban Development Company	Affiliate of a shareholder
Al Yassra Trading Co.	Affiliate of a board member

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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

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

Nature of transaction	Transaction Amount		Balance at	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	SR	SR	SR	SR
<b>Sales to</b>				
Al Fozan Holding Company	272,932	(616,677)	100,700	-
Retal Urban Development Company	125,213	-	-	-
	<b>398,145</b>	<b>(616,677)</b>	<b>100,700</b>	-
<b>Purchases / (returns)</b>				
United Homeware Company	49,340,967	18,891,941	1,737,679	2,839,186
Integrated Distribution Solutions Company	-	400,771,302	-	-
Madar Tools & Equipment Co.	1,017,221	-	904,137	-
Al Yassra Trading Co.	(349,929)	1,566,884	166,223	1,598,178
	<b>50,008,259</b>	<b>421,230,127</b>	<b>2,808,039</b>	<b>4,437,364</b>
<b>Fixed assets purchases from</b>				
Madar Electrical Materials Co.	2,257,524	-	-	-
<b>Rental income from</b>				
United Homeware Company	6,684,840	4,929,080	-	-
<b>Rent expense from</b>				
Madar Building Materials Co.	550,000	550,000	-	-
Abdullatif and Mohamed Al Fozan Co.	1,471,000	1,690,600	-	-
	<b>2,021,000</b>	<b>2,240,600</b>	-	-
<b>Other expenses expense from / (to)</b>				
Madar Building Materials Co.	332,652	300,875	-	-
United Homeware Company	(415,285)	-	-	-
	<b>(82,633)</b>	<b>300,875</b>	-	-
<b>Management fee from</b>				
United Homeware Company	(910,165)	(982,920)	-	-

**Key management compensation:**

	December 31, 2018	December 31, 2017
	SR	SR
Short term benefit	19,326,009	11,546,291
Amount payable under retention program	1,520,668	1,126,181
BOD and related committees remuneration	2,589,731	2,006,285

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**27. EARNINGS PER SHARE**

	December 31, 2018	December 31, 2017
	SR	SR
<b>Basic earnings per share</b>		
Profit for the year	161,192,029	140,138,529
Weighted average number of outstanding shares	50,000,000	50,000,000
	<u>3.22</u>	<u>2.80</u>

Diluted Earnings per share for the year is as follows,

	December 31, 2018	December 31, 2017
	SR	SR
<b>Diluted earnings per share</b>		
Profit for the year	161,192,029	140,138,529
Weighted average number of outstanding shares	48,000,000	48,000,000
	<u>3.36</u>	<u>2.92</u>

**28. LONG-TERM INCENTIVE PROGRAM**

The Company provides a long-term incentive program (the "program") to certain qualified employees who will be rewarded for their role in achieving the Company's long-term goals and to attract and retain talented employees. The program focuses on both current and future performance and enables participants to contribute to the Company's success and is measured based on performance rates determined by the nomination and remuneration Committee.

The program is entirely based on in kind settlement where the approved participants will receive the Company's shares (restricted shares "treasury shares") upon completing the vesting period and achieving the performance measures and fulfilling the necessary conditions by the participant in addition to completing the required approvals.

To participate in the plan, employees must meet the eligibility criteria as set by the Company including a minimum years of service in the Company maintaining excellent performance rating in addition to other factors. Under the terms of the plan, the option will be vested by end of 2021, 2022 and 2023. Only employee that remain in service will become entitle for this option.

This program is under the supervision of the nomination and remuneration Committee that is approved by the Board of Directors.

The total expenses related to the program for the year ended December 31, 2018 was charged to the employees' benefit expenses with a corresponding increase in the statement of changes in equity in accordance with the requirements of the International Financial Reporting Standard No. (2) "share based payment".

**Treasury shares**

	December 31, 2018	December 31, 2017
	SR	SR
At the beginning of the year	-	-
Acquired during the year	20,000,000	-
Disposal upon exercising the options	-	-
	<u>20,000,000</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018

29. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

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 receivables and installment sale receivables.

Financial instruments by category

	December 31, 2018 SR	December 31, 2017 SR
<i>Financial assets at amortized cost:</i>		
Installment sale receivables	349,477,222	152,331,713
Trade receivables	31,115,945	7,685,095
Cash and cash equivalents	211,206,159	77,160,609
<b>Total Financial assets</b>	<b>591,799,326</b>	<b>237,177,417</b>
<i>Financial liabilities at amortized cost:</i>		
Trade and other payables	655,578,224	694,669,308
Loans	460,000,000	200,000,000
Finance lease liability	546,395	123,150
<b>Total financial liabilities</b>	<b>1,116,124,619</b>	<b>894,792,458</b>

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

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), Arab Emirates Dirham (AED) 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:

		December 31, 2018 SR	December 31, 2017 SR
Cash and cash equivalent	USD	284,604	421,003
	EUR	634,548	482,428
Trade and other payables	USD	23,493,141	15,952,773
	AED	253,410	-
Advances to Suppliers	EUR	59,553	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018

29. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

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, 2018 and 2017. 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.

		<u>Increase/ Decrease in basis points of interest rates</u>	<u>Effect on income for the year</u>
		SR	SR
December 31, 2018	SAR	+50	1,043,348
	SAR	-50	(1,054,722)
December 31, 2017	SAR	+50	403,818
	SAR	-50	(405,210)

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 54 days (2017: 53 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, 2018	<u>Interest rate</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Total</u>
		SR	SR	SR
Trade and other payables	Interest free	655,578,224	-	655,578,224
Murabaha finance	3.56%-4.05%	460,000,000	-	460,000,000
Finance lease liability	Interest free	123,165	423,230	546,395
December 31, 2017	<u>Interest rate</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Total</u>
		SR	SR	SR
Trade and other payables (Note 2.4.4)	Interest free	694,669,308	-	694,669,308
Murabaha finance (Note 2.4.4)	3.20%	200,000,000	-	200,000,000
Finance lease liability (Note 2.4.4)	Interest free	26,400	96,750	123,150

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**29. FINANCIAL RISK MANAGEMENT (Continued)**

**Credit risk** (Continued)

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

<b>Description</b>	<b>December 31, 2018 SR</b>	<b>December 31, 2017 SR</b>
Cash and cash equivalents	<b>211,206,159</b>	77,160,609
Trade receivables and installment sales receivable	<b>380,593,167</b>	160,016,808

\*For sales installment receivables have been measured based on Expected Credit Loss (ECL) method. The class wise categorization of installment sales receivable ECL are included in note 8.

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 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 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.

**30. DIVIDENDS DISTRIBUTION**

In financial year 2017, 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.

During the year, the Board of Directors in their meeting held on February 21, 2018 resolved to distribute SR 52.5 million cash dividends of SR 0.75 per share to the shareholders of the Company for the second half of 2017. Also, in their meeting held on July 8, 2018, the Board of Directors resolved to distribute cash dividends of SR 0.75 per share to the shareholders of the Company for the first half of 2018 with a total amount of SR 31.50 million. Dividends were fully paid during the year ended December 31, 2018.

**31. CONTINGENCIES AND COMMITMENTS**

	<b>December 31, 2018 SR</b>	<b>December 31, 2017 SR</b>
Letters of credit	<b>498,522,081</b>	379,629,739
Letters of guarantee	<b>117,364,117</b>	26,091,198
Commitments for the acquisition of property and equipment	<b>30,706,597</b>	2,613,956
Commitments for the acquisition of intangible assets	<b>10,665,688</b>	914,344

**32. COMPARATIVE FIGURES**

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

**33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved by the board of directors and authorized for issue on March 3, 2019 corresponding to 26 Jumada II, 1440.