SAUDI COMPANY FOR HARDWARE
(SAUDI JOINT STOCK COMPANY)

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

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Head office - Riyadh
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Date 10/3/1419
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Saudi Company for Hardware
(Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Saudi Company for Hardware, a Saudi Joint Stock Company and its subsidiary ("the Group") which comprise the consolidated statement of financial position as of December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in notes 1 to 36.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Group's consolidated financial statements and we have fulfilled our 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditors' Responsibilities for the Audit of the consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key audit matter
Impairment of goodwill The Group recognized SR 22.4 million of goodwill at December 31, 2018 as a result of acquisition of Medscan Terminal Services in prior year. In accordance with IAS 36 – Impairment of Assets, an entity is required to test goodwill acquired in a business combination for impairment at least annually irrespective of whether there is any indication of impairment. Goodwill is monitored by the management at the level of only one Cash-Generating Unit (CGU) – Medscan Terminal Company Limited. The goodwill impairment assessment was carried out by the management based on a discounted cash flow analysis, which uses the most recent five years business projections prepared by the management. The result of the assessment did not result in any impairment loss to be recognized. There is a risk regarding the potential impairment of the carrying value of goodwill given the judgements management is required to make in respect of the assumptions used to determine the recoverable amount of goodwill under value in use basis. In carrying out the impairment assessment, significant judgment and assumptions are required in determining the future cash flows, growth rates, discount rates and terminal value. Therefore, we identified the impairment testing of goodwill as a key audit matter. Refer note 6 and note 16 to the consolidated financial statements for additional details.	We performed the following audit procedures in relation to goodwill impairment: • Assessed the adequacy of the design and tested the implementation of controls over monitoring the carrying value of goodwill. • Challenged management's assessment of the cash generating units (CGU) within the Group based on a review of the cash flows internally reported by management, and our understanding of the Group structure. • Challenged management's future cash flow forecasts by comparing the forecasts to the latest Board approved projections. We critically reviewed the historical accuracy of budgets and forecasts by, for example, comparing the budgets used in the prior year value in use model against the actual performance of the business in the current year, to evaluate the quality and accuracy of the forecasting process. • Assessed the appropriateness of cash flow projections of value in use of the business and challenged the reasonableness of key assumptions such as the future business growth rate, terminal growth rate and discount rate, etc., based on our knowledge of the business and industry by comparing the assumptions to historical results and comparing the current year actual results with prior year forecast and other relevant information. • We checked whether the impairment model had been prepared on the basis of management's assumptions and was arithmetically accurate. We challenged the appropriateness of sensitivities of these assumptions based on work performed on the key assumptions, and recalculated these sensitized scenarios in order to assess the potential impact of a range of possible outcomes; and Considered the adequacy of the Group's goodwill disclosure in terms of applicable accounting standards.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters (continued)

Provision for shrinkage, slow moving and obsolete inventories The nature of operations of the Group requires that it is necessary to hold merchandise at its showrooms, franchisees and at regional warehouses in order to sell the merchandise to customers in various showrooms and to avoid shortage of merchandise at any point in time. The Group had gross inventory of merchandise amounting to SR 702.7 million (2017: SR 622.3 million) and provision for shrinkage, slow and non-moving inventories amounting to SR 18.9 million (2017: SR 25.3 million) in the consolidated statement of financial position. The Group provides for slow moving and obsolete inventory based on its historical experience, sales trends and others factors The Group considers the results of physical inventory count to determine the expected level of inventory shrinkage provision. This methodology relies upon significant judgments and key assumptions used by the management in determining appropriate provisioning percentages and is therefore considered as a key audit matter. Refer note 3 to the Consolidated financial statements for accounting policy related to the inventory and note 18 for relevant disclosure.	We obtained a detailed understanding and evaluated the design and tested implementation of controls that the Group has established in relation to inventory provision. We obtained assurance over the appropriateness of the management's assumptions applied in calculating the value of inventory provision by performing the following: • Reviewed the Group's provisioning policy with specific consideration given to inventories which are discontinued by the management with less movement in a given year; • Verified the value of a sample of inventory to confirm whether it is held at the lower of cost and net realizable value through comparison to vendor invoices and recent sales prices; • Tested the reliability of the underlying data used by management to calculate the slow and non-moving and obsolescence allowance, typically an aged merchandise analysis showing last movements; • Assessed historical accuracy of inventory provision by comparing it with actual inventory write-offs in relation to stock loss or other inventory provisioning adjustments; • Recomputed the provision recorded to verify that they are recorded in line with the Group's policy and at their net realizable value. This was done in conjunction with IT specialist for some components where the provision is based on the aging; and • Evaluated the shrinkage provision made by the Group by considering the inventory shortages trend reported in recent stock counts.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other matter

The consolidated financial statements of the Group for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on 15 Rajab 1439H, corresponding to April 1, 2018.

Other information included in the Group's 2018 Annual Report

Other information consist of the information included in the Group's 2018 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The annual report is expected to be made available to us after the date of 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 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. If, based on the work we have performed, 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 IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional skepticism throughout the audit.

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Chartered Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matter. 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 the matter should not be communicated in our report because the adverse consequence of doing so would reasonably be expected to outweigh the public interest of such communication.

Deloitte and Touche & Co
Chartered Accountants

Ehsan A. Makhdoum
License No. 358
27 Jumada II, 1440
March 4, 2019

SAUDI COMPANY FOR HARDWARE
(SAUDI JOINT STOCK COMPANY)

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

	Notes	2018 SR	2017 SR
Revenue	7,8	**1,390,470,544**	1,455,932,275
Cost of revenue	9	**(1,140,564,889)**	(1,171,250,599)
GROSS PROFIT		**249,905,655**	284,681,676
Selling and marketing expenses	10	**(19,208,567)**	(25,866,946)
General and administration expenses	11	**(118,336,936)**	(108,876,495)
OPERATING PROFIT		**112,360,152**	149,938,235
Other income		**3,352,075**	2,841,115
Finance cost	12	**(6,310,505)**	(7,444,695)
PROFIT BEFORE ZAKAT		**109,401,722**	145,334,655
Zakat	13	**(11,518,274)**	(10,435,457)
NET PROFIT FOR THE YEAR		**97,883,448**	134,899,198
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss			
Net changes in fair value of equity investments at fair value through other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**97,883,448**	134,899,198
Earnings per share (Saudi Riyals)			
Basic and diluted earnings per share attributable to the equity shareholders of the Company	14	**2.72**	3.75
Weighted average number of shares		**36,000,000**	36,000,000

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

The accompanying notes form an integral part of these consolidated financial statements

SAUDI COMPANY FOR HARDWARE
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	Notes	2018 SR	2017 SR
ASSETS			
Non-current assets			
Property and equipment	15	**254,536,178**	244,083,692
Intangible assets	16	**40,981,580**	43,435,487
Equity investment at FVTOCI	17	**9,662,153**	9,662,153
Total non-current assets		**305,179,911**	297,181,332
Current assets			
Inventories	18	**683,844,776**	597,007,742
Accounts receivable	19	**30,625,806**	21,050,760
Prepayments and other receivables	20	**61,137,404**	61,023,581
Cash and cash equivalents	21	**16,333,485**	27,320,630
Total current assets		**791,941,471**	706,402,713
TOTAL ASSETS		**1,097,121,382**	1,003,584,045
EQUITY AND LIABILITIES			
Equity			
Share capital	1,26	**360,000,000**	240,000,000
Statutory reserve	27	**9,788,345**	57,701,439
Retained earnings		**263,643,898**	300,396,702
Fair value reserve	17	**1,401,700**	1,401,700
Total equity		**634,833,943**	599,499,841
Non-current liabilities			
Long term borrowings	22	**59,366,072**	82,875,000
Retirement benefit obligations	23	**40,843,454**	38,865,590
Total non-current liabilities		**100,209,526**	121,740,590
Current liabilities			
Short term borrowings	22	**37,678,575**	34,026,405
Current portion of long term borrowings	22	**23,508,929**	15,787,778
Accounts payable	24	**222,483,732**	158,432,866
Accrued expenses and other liabilities	25	**66,070,340**	62,460,221
Zakat payable	13	**12,240,295**	11,542,327
Dividends payable	28	**96,042**	94,017
Total current liabilities		**362,077,913**	282,343,614
Total liabilities		**462,287,439**	404,084,204
TOTAL EQUITY AND LIABILITIES		**1,097,121,382**	1,003,584,045

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

The accompanying notes form an integral part of these consolidated financial statements

SAUDI COMPANY FOR HARDWARE
(SAUDI JOINT STOCK COMPANY)

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

	Note	Share capital SR	Statutory reserve SR	Retained earnings SR	Fair value reserve SR	Total SR
Balance at January 1, 2017		240,000,000	44,211,519	220,987,424	1,401,700	506,600,643
Net profit for the year		-	-	134,899,198	-	134,899,198
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	134,899,198	-	134,899,198
Transfer to statutory reserve	27	-	13,489,920	(13,489,920)	-	-
Dividend distribution	28	-	-	(42,000,000)	-	(42,000,000)
Balance at December 31, 2017		240,000,000	57,701,439	300,396,702	1,401,700	599,499,841
January 1, 2018 (as previously reported)	5	240,000,000	57,701,439	300,396,702	1,401,700	599,499,841
Adjustment in application of IFRS 15	5	-	-	(863,210)	-	(863,210)
Adjustment in application of IFRS 9	5	-	-	(1,686,136)	-	(1,686,136)
Balance at January 1, 2018 (adjusted)		240,000,000	57,701,439	297,847,356	1,401,700	596,950,495
Net profit for the year		-	-	**97,883,448**	-	**97,883,448**
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	**97,883,448**	-	**97,883,448**
Transfer to statutory reserve	27	-	**9,788,345**	**(9,788,345)**	-	-
Share capital issued	26	**120,000,000**	**(57,701,439)**	**(62,298,561)**	-	-
Dividend distribution	28	-	-	**(60,000,000)**	-	**(60,000,000)**
Balance at December 31, 2018		**360,000,000**	**9,788,345**	**263,643,898**	**1,401,700**	**634,833,943**

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

The accompanying notes form an integral part of these consolidated financial statements

SAUDI COMPANY FOR HARDWARE
(SAUDI JOINT STOCK COMPANY)

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

	2018 SR	2017 SR
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit for the year	**97,883,448**	134,899,198
Adjustments for:		
Zakat	**11,518,274**	10,435,457
Finance cost	**6,310,505**	7,444,695
Depreciation and amortization	**42,960,536**	38,042,847
(Gain)/loss on disposal of property and equipment	**(21,167)**	93,401
Write-off property and equipment	**250,398**	-
(Reversal)/provision for slow moving items and inventory shortages	**(6,400,839)**	3,227,045
Write-off inventories	**19,490,775**	17,922,516
Provision for doubtful debts	**450,242**	289,500
Provision for other receivables	**1,820,715**	-
Provision for retirement benefit obligations	**6,520,496**	7,499,808
Movement in working capital:		
Inventories	**(99,926,970)**	(104,242,231)
Accounts receivable	**(10,304,396)**	(958,130)
Prepayments and other receivables	**(1,879,411)**	(5,010,157)
Accounts payable	**68,948,342**	33,916,857
Accrued expenses and other current liabilities	**2,172,183**	(42,050,790)
Cash generated from operations	**139,793,131**	101,510,016
Zakat paid	**(10,748,869)**	(9,975,972)
Finance cost paid	**(7,269,371)**	(6,021,746)
Retirement benefit obligations paid	**(4,542,632)**	(2,661,967)
Net cash generated from operating activities	**117,232,259**	82,850,331
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase for property and equipment	**(53,237,220)**	(85,175,211)
Proceeds from disposal of property and equipment	**80,412**	1,083,392
Purchase for intangible assets	**(2,929,014)**	(4,873,363)
Net cash used in investing activities	**(56,085,822)**	(88,965,182)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in short term borrowings	**3,652,170**	23,814,598
Proceeds of long term borrowings	-	54,000,000
Repayments of long term borrowings	**(15,787,777)**	(20,946,195)
Dividends paid	**(59,997,975)**	(77,968,297)
Net cash used in financing activities	**(72,133,582)**	(21,099,894)
Net change in cash and cash equivalents	**(10,987,145)**	(27,214,745)
Cash and cash equivalents at beginning of the year	**27,320,630**	54,535,375
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**16,333,485**	27,320,630
Significant non-cash transaction:		
Adjustment of property and equipment (note 15)	**(4,897,476)**	-

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

The accompanying notes form an integral part of these consolidated financial statements

1. CORPORATE INFORMATION

Saudi Company for Hardware (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010056595 issued in Riyadh on Safar 26. 1405H (corresponding to November 19, 1984). The Capital Market Authority (the "CMA") announced on Jumada II 5,1436H (corresponding to March 25, 2015) the CMA's board decision to approve the launch of 7,200,000 shares in the Company initial public offering which represents 30% of the total shares of the Company's 24,000,000 shares in which it was allocated to investment funds and licensed individuals. The Company's shares were listed in the Saudi Stock Market ("Tadawul") on Sha'ban 23, 1436H (corresponding to May 12, 2015).

As of December 31, 2018 the Company's share capital was SR 360 million divided into 36 million shares of SR 10 each (2017: SR 240 million divided into 24 million shares of SR 10 each).

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

The registered address of the Company is P.O. Box 86387, Riyadh 11622, Kingdom of Saudi Arabia.

The accompanying consolidated financial statements include the financial statements of the Company, its subsidiary and its following 30 stores located in various cities in the Kingdom of Saudi Arabia:

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

The Company and its subsidiary are referred to hereinafter as ("the Group").

Stores	Region	Date of CR	Commercial registration No.
Takhassoussi	Riyadh	26/02/1405	1010056595
Hamra	Riyadh	14/04/1420	1010154852
Badiaa	Riyadh	19/11/1430	1010276497
Rimal	Riyadh	23/06/1431	1010289426
Khurais	Riyadh	22/07/1417	1010144072
Al Qasr	Riyadh	22/01/1433	1010322479
Northern Ring Road	Riyadh	08/07/1425	1010201062
Alia Plaza	Riyadh	06/06/1435	1010409935
Al Thaagar Plaza	Riyadh	16/04/1436	1010430261
King Abdullah Branch	Riyadh	04/07/1407	1010065245
Buraydah	Qasim	13/04/1426	1131020838
Andalous	Jeddah	10/01/1415	4030104324
Tahlia	Jeddah	10/02/1409	4030061896
Prince Sultan Road	Jeddah	15/03/1431	4030198058
Al Sawary Mall	Jeddah	06/06/1435	4030268514
Medina Al Mounawara Branch	Medina Al Mounawara	23/06/1428	4650039295
Yanbu Branch	Yanbu	18/07/1431	4700012605
Dammam Branch	Dammam	28/05/1416	2050030529
Dhahran Branch	Dhahran	14/11/1420	2052000780
Jubail Branch	Jubail	13/03/1420	2055004380
Al Ahsa Branch	Al Ahsa	20/01/1421	2252026146
Jazan Branch	Jazan	16/04/1436	5900031715
Hail Branch	Hail	16/04/1436	3350043304
Onayzah Branch	Qasim	29/04/1437	1128019513

1. CORPORATE INFORMATION (CONTINUED)

Stores	Region	Date of CR	Commercial registration No.
Al Kharj Branch	Al Kharj	22/11/1437	1011024139
Hafr El Batten	Hafr El Batten	22/11/1437	2511025181
Damman	Dammam	14/01/1439	2050113956
Skaka (new)	Aljouf	01/09/1439	3400116314
Al Tyaf (new)	Riyadh	20/01/1440	1010461248
Al Taif (new)	Al Taif	20/01/1440	4032229985
Workshop			
Workshop Center	Riyadh	27/08/1431	1010293034

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

New and revised IFRS Standards in issue but not yet effective

At the date of authorization of these consolidated financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 16 Leases IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019
IFRIC 23 Uncertainty over Income Tax Treatments The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	January 1, 2019
Amendments to IAS 28 Investment in Associates and Joint Ventures Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

New and revised IFRS Standards in issue but not yet effective (continued)

New and revised IFRSs	**Effective for annual periods beginning on or after**
Annual Improvements to IFRS Standards 2015–2017: Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	January 1, 2019
Amendments to IAS 19 Employee Benefits The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.	January 1, 2019
Amendments to IAS 1 and IAS 8 • The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. • The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. • The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. • The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.	January 1, 2020

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

New and revised IFRS Standards in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020

- Reintroduces the terms stewardship and prudence.
- Introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument.
- Removes from the asset and liability definitions references to the expected flow of economic benefits–this lowers the hurdle for identifying the existence of an asset or liability and puts more emphasis on reflecting uncertainty in measurement.
- Discusses historical cost and current value measures, and provides some guidance on how the IASB would go about selecting a measurement basis for a particular asset or liability.
- States that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances will the IASB use other comprehensive income and only for income or expenses that arise from a change in the current value of an asset or liability.
- Discusses uncertainty, derecognition, unit of account, the reporting entity and consolidated financial statements.

The IASB has also updated references in Standards so that they will refer to the new Framework, but it has not made consequential amendments to Standards to reflect changes in the Framework such as changing the asset and liability definitions in the Standards.

IFRS 17 Insurance Contracts IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of January 1, 2021.	January 1, 2021
Amendments to IFRS 10 Re-issued consolidated financial statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

New and revised IFRS Standards in issue but not yet effective (continued)

New and revised IFRSs	**Effective for annual periods beginning on or after**
Amendments to IFRS 3 • The amendments mean that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. • Additional guidance is introduced that helps to determine whether a substantive process has been acquired. New illustrative examples assist with the interpretation of what is considered a business. • The IASB has removed the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. • The definitions of a business and of outputs are narrowed by focusing on goods and services provided to customers. The reference to an ability to reduce costs is removed. • The IASB has introduced an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business- it is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.	January 1, 2020

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

Impact assessment of IFRS 16 *Leases*
The Group is required to adopt IFRS 16 Leases from January 1, 2019. The Group has performed initial assessment during the year and assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on January 1, 2019 may change at the time of final assessment.

The Group plans to apply IFRS 16 initially on January 1, 2019, using the modified retrospective approach. therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of SR 725.8 million.

A preliminary assessment indicates that SR 725.8 million of these arrangements relate to leases other than short term leases and leases of low value assets, and hence the Group will recognise a right of use asset of SR 433.8 million, a corresponding lease liabilities of SR 489.6 million as at January 1, 2019 with a total decrease in equity amounting to SR 76.5 million.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") as endorsed by Saudi Organization for Certified Public Accountants (SOCPA) (IFRS endorsed by SOCPA).

As required by CMA through its circular dated October 16, 2016, the Group applied cost model to measure the property and equipment upon adopting IFRS for three years starting from IFRS adoption date January 1, 2017.

Basis of preparation
The consolidated financial statements are prepared under the historical cost convention except for certain financial instruments at FVTOCI that are measured at fair values and by using the actuarial basis for end of service benefits, on the accrual basis of accounting. These consolidated financial statements are presented in Saudi Riyal ("SR"), which is the Group's functional currency.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and an entities controlled by the Company and its subsidiary. Control is achieved when the Company:

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

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

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.

When necessary, adjustments are made to the financial statements of the subsidiary 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.

Business combinations
Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with IFRS 2 Share-Based Payments at the acquisition date (see below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

Revenue recognition
Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognized. The Group recognizes revenue from the following major sources.

Sale of goods at retail showrooms
Sale of goods to retail customers, revenue is recognized when control of the goods has transferred being at the point the customer purchases the goods at the retail outlets. Payment of the transaction price is due immediately at the point the customers purchases the goods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sale of goods at retail showrooms (continued)
Under the Group's standard contract terms, customers have a right of return within 7 days. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognized for those products expected to be returned. At the same time, the Group has a right to recover the product when customers exercise their right of return so consequently recognizes a right to returned goods asset and a corresponding adjustment to cost of sales. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognized will not occur given the consistent level of return over previous years.

The Group sells hardware, electronic equipment, mobile phones, furniture, household items, etc., directly to credit customers both through its own retail outlets and through internet sales. Revenue is recognized when the control of the goods has transferred, being at the point in time the goods are delivered to the customers. When the customer initially purchases the goods online the transaction price received by the group is recognized as a contract liability until the goods have been delivered to the customer.

The Group operates in loyalty point's programs, "My Rewards" which allows customers to accumulate points when they purchase products in the Group's retail stores. The points can then be redeemed for free products, subject to a minimum numbers of points being obtained. A contract liability is recognized for revenue relating to the loyalty points at the time of the initial sales transaction. Revenue from the loyalty points is recognized when the points are redeemed by the customer. Award points expired 12 months after the initial sale. Revenue for points that are not expected to be redeemed is recognized in proportion to the pattern of rights exercised by customers.

No element of financing component is deemed present as the sales are made either on cash or on credit terms consistent with market practice.

Rendering of services
Revenue from logistic services is recognized when the services are completed and invoiced to the customers.

Cost of revenue
Costs of revenue principally comprise the cost of goods sold, which include direct labor, landed costs of merchandise sold, showroom lease rent, staff costs and depreciation.

Expenses
Selling and marketing expenses principally comprise of costs incurred in the distribution and marketing of the Group's products. All other expenses are classified as general and administrative expenses.

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

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies
At each reporting date, monetary assets and liabilities that are denominated in currencies other than the entity's functional currency (foreign currencies) are retranslated 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Differences arising on settlement or translation of monetary items are recognized in the consolidated statement of profit or loss.

Borrowing cost
Borrowing costs directly attributable to construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Zakat
The Group is subject to the regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia. The provision is charged to the statement of profit or loss and other comprehensive income. The zakat charge is computed on the Saudi shareholders' share of the zakat base or adjusted net income whichever is higher. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalized.

Value added tax

- Expenses and assets are recognised net of the amount of value added tax ("VAT"), except:
- When receivables and payables are stated with the amount of VAT included.
- The net amount of VAT recoverable from, or payable to, the GAZT is included as part of receivables or payables in the statement of consolidated financial position.

Property and equipment
Property and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any, except freehold land and capital work in progress which are stated at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items including borrowing costs. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Where major components of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Disposal of asset is recognized when significant risks and rewards incidental to ownership have been transferred to buyers. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other income' in the statement of profit or loss and other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

Depreciation is charged to the statement of profit and loss and other comprehensive income using the straight line method whereby the cost of an operating asset less its estimated residual value is written off over its estimated useful life. Depreciation on addition is charged from the month in which the asset is available for use and on disposals up to the month of disposal. Depreciation method, useful lives and residual values are reviewed annually.

The following useful lives are used in the calculation of depreciation:

	Years
Buildings	20
Furniture and fixtures	2.5 to 20
Computer hardware	2 to 4
Vehicles	4
Tools and equipment	4 to 7

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

Capital work-in-progress is stated at cost less impairment losses, if any, and is not depreciated until the asset is brought into commercial operations and available for intended use.

Intangible assets

Intangible assets acquired separately

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. 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. Intangible assets comprise goodwill and software licenses.

Goodwill

Goodwill is initially recognised and measured as set out above in business combination policy. Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Software licenses

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 from 2 to 7 years. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Derecognition 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 derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill
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 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 profit or loss.

Inventories
Inventories are stated at the lower of cost and net realizable value. Cost comprise purchase cost and, where applicable, direct costs (e.g. shipping, transportation, insurance, and other costs) and those overheads that have been incurred in bringing the inventories to their present location and condition. Inventories are valued on a weighted average cost basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments
Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets
All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets
Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order 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 interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

Impairment of financial assets
The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)
The Group always recognises ECL for accounts receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account, where deemed applicable, when assessing whether credit risk has increased significantly since initial recognition;

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument,
- e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Significant increase in credit risk (continued)
Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default,
(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

i) Definition of default
The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 365 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

ii) Credit impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event (see (ii) above);
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Significant increase in credit risk (continued)

iii) Write off policy
The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

iv) Measurement and recognition of expected credit losses
The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets (continued)
On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities
All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:
- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship (see Hedge accounting policy). The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in consolidated statement of comprehensive income.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities (continued)

Financial liabilities at FVTPL (continued)
Gains or losses on financial guarantee contracts issued by the Group that are designated by the Group as at FVTPL are recognised in profit or loss.

Fair value is determined in the manner described in note 34.

Financial liabilities measured subsequently at amortised cost
Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

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

Financial guarantee contract liabilities
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above); and
- the amount recognised initially less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

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

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities (continued)

Retirement benefit costs and termination benefits

For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Re-measurement, comprising actuarial gains and losses is 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-measurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net 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);
- net interest expense or income; and
- re-measurement.

Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligations recognized in the statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

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.

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks, cash on hand, short term deposits, demand deposits and highly liquid investments with original maturity of three months or less, net of outstanding bank overdrafts which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less.

Provisions

Provisions are recognised 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 that obligation and a reliable estimate can be made of the amount of the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)
The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where 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 recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Dividend
Dividends are recorded in the consolidated financial statement in the period in which these are approved.

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

Contingencies
Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. For liabilities which are probable, they are recorded in the consolidated statement of financial position under accounts payable and accruals. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Earnings per share
The Group presents basic, and diluted (if any), earnings per shares (EPS) data for its ordinary shares. Basic EPS is calculated by dividing net income for the year of the Group by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held ((if any). Diluted EPS , if any, is determined by adjusting the net income for the year and the weighted average number of ordinary shares outstanding during the year, adjusted for the own shares held, for the effects of all dilutive potential ordinary shares.

Segmental reporting
A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Property and equipment

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. The management has not considered any residual value as it is deemed immaterial.

Significant increase in credit risk

As explained in note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the GDP and market credit risk of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Allowance for slow moving and obsolete inventories

Inventories are stated at the lower of cost and net realizable value. Adjustments to reduce the cost of inventories to net realizable value, if required, are made at the product level for estimated excess, obsolescence or damages. Factors influencing these adjustments include change in demand, product pricing, physical deterioration and quality issues.

Key sources of estimation uncertainty

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

Property and equipment

The Group reviews appropriateness of the rate of depreciation, useful life and residual value used in the calculation of depreciation. Further, where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

Allowance for doubtful accounts receivable

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. The Group uses estimates for the computation of loss rates.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (continued)

Valuation of defined benefit obligations
The cost of the defined benefit pension plan and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and other assumptions. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Impairment of non-financial assets
Impairment exists when the carrying value of an asset or Cash Generating Unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing off the asset. The value in use calculation is based on a Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the perfo1mance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future net cash-inflows and the growth rate used for extrapolation purposes.

Contract liabilities (refund liability)
The refund liability relates to customers' right to return products within 7 days of purchase. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method.

5. IMPACT OF ADOPTION OF IFRS 15 AND 9

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" from January 1, 2018.

The effect of applying these standards is mainly attributed to the following:

- Presentation of revenue net of sales return, customer rewards points, contract assets (if any), contract cost and contract liabilities.
- An increase in impairment losses recognized on financial assets.

Effect of Applying IFRS 15 "Revenue from Contracts with Customers"
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The new standard establishes a five-step model to account for revenue arising from contracts with customers. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations of IFRS and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The Group recognizes revenue, which is an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer, when customer obtains controls of the goods or services at a point in time i.e. on delivery and acknowledgement of goods and services.

The details of new significant accounting policies and the nature of changes to previous accounting policies in relation to the Group's sale of goods are set out below:

5. IMPACT OF ADOPTION OF IFRS 15 AND 9 (CONTINUED)

Effect of Applying IFRS 15 "Revenue from Contracts with Customers"

Products
Hardware devices, tools and other goods.

Nature, timing of satisfaction of performance obligations, significant payment terms
Customers obtain control of products when the goods are delivered to and have been accepted by the customers. Invoices are generated and revenue is recognized at that point in time.

Credit invoices are usually payable within 30 – 120 days. Invoices are generated and recognised as revenue net of applicable discounts which relate to the items sold. Customer loyalty points are offered to customers and therefore there is deferred revenue (contract liability) to be recognized for the items sold.

For contracts that permit the customer to return an item, under IFRS 15 revenue is recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Therefore, the amount of revenue recognized is adjusted for expected returns, which is re estimated based on the historical data. Returned goods liability is recorded in "accrued expenses and other liabilities" for cash sales and credit sales.

a) Contract assets
Under IFRS 15, if an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. There was no restatement due to this change; except for reclassification between receivables to contract assets.

b) Contract liabilities
The following contract liabilities are recognised in relation to the application of IFRS 15
- Advance payment received from customers
- Deferred revenue (rewards points)

c) Accounting for refunds
The Group's customers have a right to return the product within a given period (7 days), The Group is obliged to refund the purchase price.

Under IFRS 15, a refund liability for the expected refunds to customers is recognised as adjustment to revenue in trade and other payables. At the same time, the Group has a right to recover the product from the customer where the customer exercises his right of return and recognises an asset and a corresponding adjustment to cost of sales. As at January 1, 2018 the Group recognized a refund liability amounted to SR 2.47 million and recognized a corresponding asset also from these expected returns amounted to SR 1.60 million. The asset is measured by reference to the former carrying amount of the product. The costs to recover the products are not material because the customer usually returns the product in a saleable condition at the store.

5. IMPACT OF ADOPTION OF IFRS 15 AND 9 (CONTINUED)

Effect of Applying IFRS 15 "Revenue from Contracts with Customers"(continued)

Nature of change in accounting policy (continued)

d) Accounting for customer loyalty program
In previous reporting periods, the consideration received from the sale of goods was allocated to the points using spending matrix method. Under this method, customers who spend money in purchasing goods will receive loyalty points as specified in the following table:

Level	Customer Spending (Saudi Riyals)	Percentage of points	Remarks
First	1 to 1,000	0%	No points will be added in the first level
Second	1,001 to 6,000	3%	3 % of purchases from Saudi Riyals 1,001 to 6,000 within one Gregorian year of the first invoice
Third	6,001 to 12,000	4%	4 % of purchases from Saudi Riyals 6001 to 12,000 within one Gregorian year of the first invoice
Fourth	12,001 and Above	6%	6 % of purchases exceeding Saudi Riyals 12,000 within one Gregorian year Gregorian year of the first invoice

Under IFRS 15, the total consideration must be allocated to the points and goods based on the relative standalone selling prices. Management calculated the loyalty points under the new method and determined that there is no material variance between using spending matrix method and relative stand-alone selling prices.

e) Presentation of assets and liabilities related to contracts with customers
The Group has also voluntarily changed the presentation of certain amounts in the consolidated statement of financial position to reflect the terminology of IFRS 15:

- Contract liabilities in relation to customer's advance payments which are included in accrued expenses and other liabilities (SR 2 million as at December 31, 2018).

- Contract liabilities in relation to the customer loyalty program were previously presented as deferred revenue, see (d) above.

- Other payables relating to refund liabilities were previously presented in current provisions (SR 1.62 million as at December 31, 2018).

5. IMPACT OF ADOPTION OF IFRS 15 AND 9 (CONTINUED)

Effect of Applying IFRS 9 "Financial Instruments"
IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. The Group has adopted IFRS 9 using the cumulative effect method with the effect of initially applying this standard recognised at the date of initial application (i.e. January 1, 2018), therefore, the comparative information has not been restated. IFRS 9 is applicable to financial assets and financial liabilities and covers the classification, measurement, impairment and de-recognition of financial assets and liabilities together with a new hedge accounting model. The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

Financial assets measured at FVTOCI
A debt investment is measured at FVTOCI if it meets following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows

Equity investments at FVTOCI
These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at January 1, 2018 relates solely to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the class of the Group's financial assets as at January 1, 2018.

Financial assets	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount as under IFRS 9
Equity investment	A	Available for sale	Equity investments at FVOCI	**9,662,153**	**9,662,153**
Cash and bank balances	B	Loans and receivables	Amortized cost	**27,320,630**	**27,320,630**
Accounts receivable	C	Loans and receivables	Amortized cost	**21,050,760**	**20,771,652**
Other financial assets	D	Loans and receivables	Amortized cost	**7,577,360**	**6,029,381**
				65,610,903	63,783,816

5. IMPACT OF ADOPTION OF IFRS 15 AND 9 (CONTINUED)

Effect of Applying IFRS 9 "Financial Instruments"(continued)

Equity investments at FVTOCI (continued)

A - These equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

B – All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable banking institutions.

C – Accounts receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. An increase of SR 279,108 in the allowance for impairment over these receivables was recognised in the opening retained earnings at January 1, 2018 on transition to IFRS 9.

D - Sub - Lease receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. An increase of SR 1,547,979 in the allowance for impairment over these lease receivables was recognised in the opening retained earnings at January 1, 2018 on transition to IFRS 9.

Impairment of financial instruments
For trade receivables, the Group applies a simplified approach to measure the provision for loss in an amount equal to the expected credit loss over the life of the financial instrument. Since credit risk has not increased significantly, life time ECL is used to provide for impairment provision.

The Group has applied IFRS 9 and 15 using the cumulative effect method with the effect of initially applying those standards recognised at the date of initial application (i.e. January 1, 2018) therefore, the comparative information has not been restated and continues to be reported under IAS 18, IAS 11 and IAS 39. The following tables summarize the impact of adopting IFRS 9 and 15 on the Group's consolidated statement of financial position as of January 1, 2018:

5. IMPACT OF ADOPTION OF IFRS 15 AND 9 (CONTINUED)

Consolidated statement of financial position as of January 1, 2018:

	Amounts without impact of IFRS 9 and IFRS 15	Adjustment / reclassifications IFRS 9	Adjustment IFRS 15	Amounts including the impacts of IFRS 9 and IFRS 15
	SR	SR	SR	SR
ASSETS				
Non-current assets				
Property and equipment	**244,083,692**	-	-	**244,083,692**
Intangible assets	**43,435,487**	-	-	**43,435,487**
Available for sales investment	**9,662,153**	(9,662,153)	-	-
Equity investments at FVTOCI	-	9,662,153	-	9,662,153
Total non-current assets	297,181,332	-	-	297,181,332
Current assets				
Inventories	**597,007,742**	-	-	**597,007,742**
Accounts receivable	**21,050,760**	**(279,108)**	-	20,771,652
Prepaid expenses and other assets	**61,023,581**	**(1,547,979)**	**1,603,106**	61,078,708
Cash and bank balances	27,320,630	-	-	27,320,630
Total current assets	706,402,713	(1,827,087)	1,603,106	706,178,732
TOTAL ASSETS	1,003,584,045	(1,827,087)	1,603,106	1,003,360,064
EQUITY AND LIABILITIES				
Share capital	**240,000,000**	-	-	**240,000,000**
Statutory reserve	**57,701,439**	-	-	**57,701,439**
Retained earnings	**300,396,702**	**(1,686,136)**	**(863,210)**	**297,847,356**
Fair value reserve	**1,401,700**	-	-	**1,401,700**
Total equity	599,499,841	(1,686,136)	(863,210)	596,950,495
Non-current liabilities				
Long term debts	**82,875,000**	-	-	82,875,000
Retirement benefit obligations	38,865,590	-	-	38,865,590
Total non-current liabilities	121,740,590	-	-	121,740,590
Current liabilities				
Short term borrowings	**34,026,405**	-	-	**34,026,405**
Current portion of long term debts	**15,787,778**	-	-	**15,787,778**
Accounts payable	**158,432,866**	-	-	**158,432,866**
Accrued expenses and other liabilities	62,460,221	**(140,951)**	**2,466,316**	**64,785,586**
Zakat payable	11,542,327	-	-	11,542,327
Dividend payable	94,017	-	-	94,017
Total current liabilities	282,343,614	(140,951)	2,466,316	284,668,979
Total liabilities	404,084,204	(140,951)	2,466,316	406,409,569
TOTAL EQUITY AND LIABILITIES	1,003,584,045	(1,827,087)	1,603,106	1,003,360,064

6. BUSINESS COMBINATION

On 23 Safar 1438H (corresponding to November 23, 2016), the Group signed an agreement ("agreement") to purchase the entire partners' shares in Medscan Terminal Company Ltd. ("Medscan"), which represented all the assets and liabilities of Medscan as well as transferring the brand name, logo and other intellectual property elements belonging to Medscan as of the agreement date, which is the date of the transfer of effective control to the Group ("acquisition date"), in exchange for a consideration of SR 37 million. The Group paid the full amount on the agreement date. The legal procedures related to the acquisition were completed during the quarter ended December 31, 2016. According to the terms of the agreement, the Company bears the costs related to the acquisition process.

International Financial Reporting Standard 3, (IFRS 3) "Business Combinations", requires that all identified assets and liabilities acquired in a business combination should be carried at fair values in the acquirer's balance sheet and any intangible assets acquired in the business combination are required to be separately recognised and carried at fair values. IFRS 3 allows the acquirer a maximum period of one year from the date of acquisition to finalise determination of the fair values of the assets and liabilities and to determine the value of any intangible separately identified.

The Group initially recognized Medscan assets and liabilities at provisional fair value which were equal to the book value as of November 23, 2016, which resulted in a goodwill of SR 25.4 million, representing the excess of purchase consideration over the initial book value of the acquired net assets, amounting to SR 11.6 million. In 2017, and in compliance with the requirement specified in IFRS 3, the fair valuation exercise of the recorded assets and liabilities was completed by the management as a result of which new information was obtained that necessitated adjustments to the provisional fair values of the acquired net assets. Accordingly, adjustments were made in these consolidated financial statements.

The following is a summary of the values that were initially recognized for the acquired Group on November 23, 2016 (date of acquisition) along with re-measurements for each major category of assets and liabilities:

	Notes	Fair values provisionally determined as at November 23, 2016	Adjustments as a result of finalization of fair value exercise	Fair values finalized and adjusted
Current assets:				
Cash and bank balances		5,586,939	-	5,586,939
Accounts receivable		4,301,472	-	4,301,472
Prepayments and other receivable		836,856	-	836,856
		10,725,267	-	10,725,267
Non-current assets:				
Property and equipment		3,081,054	3,023,475	6,104,529
Total assets		**13,806,321**	**3,023,475**	**16,829,796**
Current liabilities:				
Accounts payable		516,165	-	516,165
Accrued and other liabilities		530,067	-	530,067
Retirement benefit obligations		1,161,453	-	1,161,453
Total current liabilities		2,207,685	-	2,207,685
Net assets acquired		11,598,636	3,023,475	14,622,111
Less: investment consideration		37,000,000	-	37,000,000
Goodwill	16	25,401,364	-	22,377,889

6. BUSINESS COMBINATION (CONTINUED)

The goodwill of SR 22.4 million is attributable to the high profitability of the acquired business, revenue growth and future market developments of the acquired business.

6.1 Acquired trade receivables

The fair value of acquired trade receivables were SR 4,301,472. The gross contractual amount for accounts receivable due is also SR 4,301,472. No amount is uncollectible from these trade receivables.

6.2 Revenue and profit contribution

The acquired business contributed revenue of SR 10.64 million and net profit of SR 4.5 million to the Group for the year ended December 31, 2018 (2017: SR 10.6 million and SR 4.6 million respective contribution in revenue and net income).

7. REVENUE

The Group generates its revenue from sale of goods and rendering of transportation and logistics services over time and at point in time. This is consistent with the revenue information that is disclosed for each reportable segment in note 8 operating segments.

	2018 SR	2017 SR
Sales of goods, net	**1,373,221,195**	1,437,572,048
Service revenue	**6,607,089**	7,716,215
Logistics revenue	**10,642,260**	10,644,012
	1,390,470,544	1,455,932,275

Service revenue represents the Group's services department's revenue from delivery, installation and maintenance of items sold to customers.

Logistics revenue represents the revenue earned by Medscan, the subsidiary of the Group.

Sales of goods constitutes the followings:

	2018 SR	2017 SR
Retail sales, net	**1,359,259,203**	1,423,709,443
Whole-sale	**13,961,992**	13,862,605
	1,373,221,195	1,437,572,048

8. SEGMENT INFORMATION

The Group has two main operating segments namely, sales and services and logistic services.

Sales and Services segment: This segment includes sale of goods made to retail and wholesale customers. Service department represent services department's income from delivery, installation and maintenance of items sold.

Logistic Services: The logistics and related services segment provides a comprehensive logistics offering to its clients, including freight forwarding, transportation and contract logistics.

The Group's Chief Executive Officer (Chief Operating Decision Maker) reviews the internal management reports of each segment at least quarterly for the purpose of resources allocation and assessment of performance. Operating segments are organized based on factors including distribution method, targeted customers and geographic location.

The segment information provided to the strategic steering committee for the operating segment as of and for the year ended December 31, 2018 and 2017 is as follows:

For the year ended December 31, 2018	Sales and services SR	Logistic services SR	Total SR
Revenue:			
Total segment revenue	**1,379,828,284**	**23,647,855**	**1,403,476,139**
Inter-segment revenue	**-**	**(13,005,595)**	**(13,005,595)**
Revenue from external customers	1,379,828,284	10,642,260	1,390,470,544
Profit from operations	**107,823,572**	**4,536,580**	**112,360,152**
Finance cost	**(6,310,505)**	**-**	**(6,310,505)**
Other income, net	3,344,412	7,663	3,352,075
Profit before zakat	**104,857,479**	**4,544,243**	**109,401,722**
Zakat	(11,496,774)	(21,500)	(11,518,274)
Net profit for the year	93,360,705	4,522,743	97,883,448

8. SEGMENT INFORMATION (CONTINUED)

Other segment information: For the year ended December 31, 2018	Sales and services SR	Logistic services SR	Total SR
Capital expenditures	**50,280,966**	**5,885,268**	**56,166,234**
Depreciation and amortization	**37,577,615**	**5,382,921**	**42,960,536**
Total segment assets:			
December 31, 2018	**1,081,101,209**	**16,020,173**	**1,097,121,382**
Total segment liabilities:			
December 31, 2018	**455,146,328**	**7,141,111**	**462,287,439**

For the year ended December 31, 2017	Sales and services SR	Logistic services SR	Total SR
Revenue:			
Total segment revenue	1,445,288,263	17,790,637	1,463,078,900
Inter-segment revenue	-	(7,146,625)	(7,146,625)
Revenue from external customers	1,445,288,263	10,644,012	1,455,932,275
Profit from operations	145,462,970	4,475,265	149,938,235
Finance cost	(7,444,695)	-	(7,444,695)
Other income, net	2,559,568	281,547	2,841,115
Profit before zakat	140,577,843	4,756,812	145,334,655
Zakat	(10,273,367)	(162,090)	(10,435,457)
Net profit for the year	130,304,476	4,594,722	134,899,198
Other segment information: For the year ended December 31, 2017			
Capital expenditures	84,560,856	5,488,034	90,048,890
Depreciation and amortization	36,633,329	1,409,518	38,042,847
Total segment assets:			
December 31, 2017	987,574,738	16,009,307	1,003,584,045
Total segment liabilities:			
December 31, 2017	400,832,141	3,252,063	404,084,204

9. COST OF REVENUE

	2018 SR	2017 SR
Cost of goods sold	**840,452,839**	883,614,367
Loss from shrinkage and inventory shortages	**19,490,775**	17,922,516
Provision for slow moving items and inventory shortages	**(6,400,839)**	3,227,045
Salaries and other benefits	**124,888,615**	125,894,718
Rentals and leasehold expenses	**92,288,618**	81,132,597
Depreciation and amortization	**28,311,401**	23,160,936
Franchisee commission	**15,037,150**	15,022,812
Others	**26,496,330**	21,275,608
	1,140,564,889	1,171,250,599

10. SELLING AND MARKETING EXPENSES

	2018 SR	2017 SR
Advertisement and promotion	**16,898,891**	23,938,263
Salaries and other benefits	**2,309,676**	1,928,683
	19,208,567	25,866,946

11. GENERAL AND ADMINISTRATION EXPENSES

	2018 SR	2017 SR
Salaries and other benefits	**65,898,876**	61,037,685
Services	**23,762,292**	18,473,090
Depreciation and amortization	**14,649,135**	14,881,911
Rentals and leasehold expenses	**11,496,527**	12,492,583
Provision for other receivables	**1,820,715**	-
Provision for doubtful debts	**450,242**	289,500
Others	**259,149**	1,701,726
	118,336,936	108,876,495

12. FINANCE COST

	2018 SR	2017 SR
Interest on short term borrowings	**693,092**	1,551,211
Interest on long term borrowings	**3,174,285**	3,172,402
Bank and other charges	**2,443,128**	2,721,082
	6,310,505	7,444,695

13. ZAKAT

The principal elements of the Zakat base are as follows:

	2018 SR	2017 SR
Non-current assets	**305,179,911**	297,181,332
Non-current liabilities	**100,209,526**	121,740,590
Opening shareholders' equity	**599,499,841**	506,600,643
Profit before Zakat	**109,401,722**	145,334,655
Dividends	**60,000,000**	42,000,000

The Zakat is based on the consolidated financial statements of the Group. The movement in Group's zakat provision is as follows:

	2018 SR	2017 SR
January 1,	**11,542,327**	11,082,842
Charged to profit or loss	**12,240,295**	11,542,327
Over provision for prior year	**(722,021)**	(1,106,870)
Payments during the year	**(10,748,869)**	(9,975,972)
Transfer to accrued expenses and other liabilities	**(71,437)**	-
December 31,	12,240,295	11,542,327

The charge for the year for zakat is as follows:

	2018 SR	2017 SR
In respect of current year	**12,240,295**	11,542,327
In respect of prior year	**(722,021)**	(1,106,870)
Total zakat expense recognised in current year	11,518,274	10,435,457

The Company received the final zakat assessment up to 2006 and the assessments for the years 2007 to 2017 are under study by the GAZT. The Group started filing a consolidated zakat return for the Company and its subsidiary starting January 1, 2017. The final zakat assessment for the subsidiary is under review by the GAZT for the years 2011 to 2016.

14. EARNINGS PER SHARE (EPS)

Basic earnings per share is calculated by dividing the total comprehensive income for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding end of year 12,000,000, included 12,000,000 for last year as well. The calculation of diluted earnings per share is not applicable to the Group. Also, no separate earning per share calculation from continuing operations has been presented since there were no discontinued operations during the year.

The EPS calculation is given below:

	2018 SR	2017 SR
Total comprehensive income attributable to ordinary equity holders of the parent	**97,883,448**	134,899,198
Weighted average number of shares outstanding - beginning of year	**24,000,000**	24,000,000
Bonus shares issued in 2018/adjustment in 2017	**12,000,000**	12,000,000
Weighted average number of shares in issue during the year	**36,000,000**	36,000,000
Earnings per share	**2.72**	3.75

Earnings per share for 2017 have been adjusted due to the bonus shares issued during the year. There is no dilutive effect on the basic earnings per share of the Group.

15. PROPERTY AND EQUIPMENT

	Land SR	Buildings SR	Leasehold improvements SR	Furniture and fixtures SR	Computer hardware SR	Vehicles SR	Tools and equipment SR	Capital work-in-progress SR	Total SR
Cost									
January 1, 2017	17,768,405	-	150,552,456	59,996,557	22,479,941	6,972,149	24,010,260	38,822,488	320,602,256
Additions	-	10,765,859	46,122,154	15,517,258	2,643,683	6,400,435	2,983,007	742,815	85,175,211
Transfers	-	23,523,827	10,955,334	2,145,699	732,851	-	715,377	(38,073,088)	-
Disposals	-	-	(1,104,484)	(1,416,255)	(177,804)	(6,619,888)	(389,505)	(67,247)	(9,775,183)
December 31, 2017	17,768,405	34,289,686	206,525,460	76,243,259	25,678,671	6,752,696	27,319,139	1,424,968	396,002,284
Adjustment	-	**7,279,260**	**740,477**	**(251,262)**	**690,284**	**21,433,058**	**8,802,649**	-	**38,694,466**
Additions	-	-	**20,324,912**	**14,228,398**	**1,249,030**	**4,055,931**	**4,367,605**	**9,011,344**	**53,237,220**
Transfers	-	-	**60,000**	**7,838**	-	-	-	**(67,838)**	-
Disposals	-	-	-	**(18,989)**	-	**(63,300)**	**(87,000)**	-	**(169,289)**
Write off	-	-	-	**(250,398)**	-	-	-	-	**(250,398)**
December 31, 2018	**17,768,405**	**41,568,946**	**227,650,849**	**89,958,846**	**27,617,985**	**32,178,385**	**40,402,393**	**10,368,474**	**487,514,283**
Accumulated depreciation									
January 1, 2017	-	-	61,286,734	33,506,744	12,028,159	5,788,676	14,883,817	-	127,494,130
Depreciation charge	-	1,429,594	16,583,274	6,127,232	4,514,516	1,585,150	2,783,086	-	33,022,852
Disposals	-	-	(801,102)	(1,270,555)	(153,697)	(5,995,493)	(377,543)	-	(8,598,390)
December 31, 2017	-	1,429,594	77,068,906	38,363,421	16,388,978	1,378,333	17,289,360	-	151,918,592
Adjustment	-	**9,081,991**	**3,239,545**	**455,342**	-	**22,374,817**	**8,440,247**	-	**43,591,942**
Depreciation charge	-	**2,466,319**	**20,404,618**	**7,148,221**	**3,097,189**	**1,173,242**	**3,288,026**	-	**37,577,615**
Disposals	-	-	-	**(18,232)**	-	**(4,813)**	**(86,999)**	-	**(110,044)**
December 31, 2018	-	**12,977,904**	**100,713,069**	**45,948,752**	**19,486,167**	**24,921,579**	**28,930,634**	-	**232,978,105**
Net book value as at December 31, 2018	**17,768,405**	**28,591,042**	**126,937,780**	**44,010,094**	**8,131,818**	**7,256,806**	**11,471,759**	**10,368,474**	**254,536,178**
December 31, 2017	17,768,405	32,860,092	129,456,554	37,879,838	9,289,693	5,374,363	10,029,779	1,424,968	244,083,692

15. PROPERTYAND EQUIPMENT (CONTINUED)

Land amounting to SR 17.4 million was designated as a collateral against the bank borrowing to construct the head office building in Riyadh. Adjustment to cost and accumulated depreciations are made to gross up the property and equipment value to consolidate the subsidiary and to adjust the negotiated discount received from a subcontractor on the amount billed in prior year.

Capital work-in-progress as at December 31, 2018 and December 31, 2017 represents advance paid for fixed asset purchases and cost of stores under construction / maintenance.

Allocation of depreciation charge is as follows:

	2018 SR	2017 SR
Cost of revenue	**28,248,386**	23,104,847
General and administration expenses	**9,329,229**	9,918,005
	37,577,615	33,022,852

16. INTANGIBLE ASSETS

	Software licenses SR	Goodwill SR	Others SR	Total SR
Cost				
January 1, 2017	34,320,821	22,377,889	-	56,698,710
Additions	3,547,737	-	1,325,942	4,873,679
Disposals	(519)	-	-	(519)
December 31, 2017	37,868,039	22,377,889	1,325,942	61,571,870
Additions	**2,929,014**	-	-	**2,929,014**
December 31, 2018	**40,797,053**	**22,377,889**	**1,325,942**	**64,500,884**
Amortisation				
January 1, 2017	13,116,591	-	-	13,116,591
Amortisation	5,019,995	-	-	5,019,995
Disposals	(203)	-	-	(203)
December 31, 2017	18,136,383	-	-	18,136,383
Amortisation	5,249,191	-	133,730	5,382,921
December 31, 2018	23,385,574	-	133,730	23,519,304
Net book values as at				
December 31, 2018	17,411,479	22,377,889	1,192,212	40,981,580
December 31, 2017	19,731,656	22,377,889	1,325,942	43,435,487

Others

Others includes an amount of SR 1.3 million paid as a key money to a previous tenant to acquire possession of leasehold land located in King Abdulaziz Port Dammam.

Allocation of amortisation charge is as follows:

	2018 SR	2017 SR
Cost of revenue	**63,015**	56,089
General and administration expenses	**5,319,906**	4,963,906
	5,382,921	5,019,995

16. INTANGIBLES (CONTINUED)

Goodwill
On 23 Safar 1438H (corresponding to November 23, 2016), the Group acquired Medscan Terminal Company as 100% owned subsidiary.

The Goodwill is related to the acquisition of Medscan Terminal Company. Goodwill is monitored by the management at the level of only one cash-generating unit (Medscan). A segment level of summary of the goodwill allocation is presented below:

	2018 SR	2017 SR
Medscan Terminal Company	**22,377,889**	22,377,889

The management carried out an impairment exercise in respect of goodwill. The impairment test carried out was based on a discounted cash flow analysis (DCF) which utilized the most recent five year business projections prepared by the Group's management. The results of this exercise did not result in any impairment loss to be recognized. However, Management determined forecast sales growth and Gross margin based on past performance and market developments.

Terminal value is calculated using free cash flow to the CGU and Gordon Growth Model for the final year of the forecasted period.

Key assumptions used in value in use calculations
The calculation of value in use is most sensitive to the following assumptions:

Sales volume (Annual Growth Rate)	7%
Discount rate	12.67%
Long term growth rate	2%

The management has determined the value assigned to each of the above key assumptions as follows:

Sales volume (annual growth rate)
Average annual growth rate over the five-year forecast period, based on past performance and management's expectations of market development.

Long term growth rate
This is the average growth rate used to extrapolate cash flows beyond the five-year forecast period.

Sensitivity to changes in assumptions
With regard to the assessment of value in use of the cash generating units, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the subsidiary to materially exceed its recoverable amount.

17. EQUITY INVESTMENT AT FVTOCI

	2018 SR	2017 SR
ACE International Hardware	**9,662,153**	9,662,153
Percentage of shareholding	**2.3%**	2.3%
Number of shares	**22,022**	22,022

The equity investment of SR 9.66 million in ACE International Hardware (AIH) is measured at fair value based on SR 438.75 per share price through repurchase quotation available from AIH.

18. INVENTORIES

	2018 SR	2017 SR
Merchandise:		
In stores and warehouses	**599,327,728**	577,200,293
On consignment	**19,590,963**	21,056,054
Consumables	**6,064,653**	4,229,992
Goods-in-transit	**77,750,511**	19,811,321
	702,733,855	622,297,660
Less: provision for slow moving items and inventory shortages	**(18,889,079)**	(25,289,918)
	683,844,776	597,007,742

Movement in provision for slow moving items and inventory shortages is as follows:

	2018 SR	2017 SR
Balance at the beginning of the year	**25,289,918**	27,363,282
(Reversal)/ provision during the year	**(6,400,839)**	3,227,045
Written-off	-	(5,300,409)
Balance at the end of the year	18,889,079	25,289,918

Cost of inventories recognised as an expense during the year in respect of continuing operations was SR 854.44 million (2017: SR 883.61 million)

19. ACCOUNTS RECEIVABLE

	2018 SR	2017 SR
Accounts receivable – trade	**25,900,649**	19,110,906
– others	**6,860,145**	3,345,492
Less : allowance for doubtful debts	**(2,134,988)**	(1,405,638)
	30,625,806	21,050,760

Movement in the allowance for doubtful debts is as follows:

	2018 SR	2017 SR
Balance at the beginning of the year	**1,405,638**	1,116,138
Adjustment on application of IFRS 9	279,108	-
Opening balance (adjusted)	**1,684,746**	1,116,138
Provision during the year	450,242	289,500
Balance at the end of the year	2,134,988	1,405,638

19. ACCOUNTS RECEIVABLE (CONTINUED)

Trade and other receivables are non-interest bearing and are generally on 30 - 120 days terms. As of December 31, the ageing analysis of trade and other receivables is as follows:

			Past due but not impaired				
	Total	Neither past due nor impaired	Less than 60 days	61-90 days	91-180 days	181-365 days	More than one year
December 31, 2018	**32,760,794**	**26,096,496**	**3,051,520**	**394,124**	**1,922,245**	**809,865**	**486,544**
December 31, 2017	22,456,398	16,368,318	3,141,203	647,887	1,123,991	1,174,999	-

The Group measures the loss allowance for trade receivables at an amount equal to lifetime Expected Credit Loss (ECL). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, forward looking factors such as general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

20. PREPAYMENTS AND OTHER RECEIVALBES

	2018 SR	2017 SR
Prepaid expenses		
- Rent	**17,731,801**	29,250,348
- Insurance	**2,817,296**	2,563,238
- Others	**15,399,731**	11,220,763
Advances to employees	**6,790,736**	6,029,381
Advances to suppliers	**8,430,151**	6,407,743
Advance rent	**5,403,443**	-
Others	**7,932,940**	5,552,108
	64,506,098	61,023,581
Less : provision for other receivables	**(3,368,694)**	-
	61,137,404	61,023,581

Others includes an amount of sub-lease receivables amounting to SR 1.5 million (December 31, 2017: SR 1.5 million) which is fully impaired.

	2018 SR	2017 SR
January 1,	-	-
Adjustment on application of IFRS 9	1,547,979	-
Opening balance (adjusted)	**1,547,979**	-
Provision during the year	1,820,715	-
December 31,	3,368,694	-

21. CASH AND CASH EQUIVALENTS

	2018 SR	2017 SR
Cash in hand	**1,801,769**	3,042,286
Bank balances	**14,531,716**	24,278,344
	16,333,485	27,320,630

22. BORROWINGS

	2018 SR	2017 SR
Short term borrowings	**37,678,575**	34,026,405
Long term borrowings	**82,875,001**	98,662,778
Total borrowings	120,553,576	132,689,183

Short term borrowings	**37,678,575**	34,026,405
Current portion of long term borrowings	**23,508,929**	15,787,778
Non-current portion of long term borrowings	**59,366,072**	82,875,000
Total borrowings	120,553,576	132,689,183

Maturity profile of non-current portion of long-term borrowings is as follows:

	2018 SR	2017 SR
Later than 1 year	**27,366,073**	15,610,112
Later than 2 years but not more than 5 years	**31,999,999**	67,264,888
	59,366,072	82,875,000

The Group obtained borrowing facilities in the amount of SR 438 million from various local banks. Such facilities provide facilities for short and long-term borrowings, letters of credit and guarantee and notes payable for bills of exchange to finance working capital, investments, and capital expenditures. These facilities, which are in form of Murabaha and Tawarroq financing, bear financial charges at prevailing market rates based on Saudi Inter-bank Offer Rate ("SIBOR") and Riyadh Inter-bank Offer Rate ("RIBOR"). These facility agreements also include covenants which require maintenance of certain financial ratios, restrict payments of dividends and other requirements which the Group was in compliance with as of December 31, 2018. The facilities are secured by order notes payable on demand equivalent to the total value of the facilities, assignment of insurance claim proceeds in favor of the lenders and pledge of a tittle deed (refer note 15)".These facilities as of December 31, 2018 include a loan in the amount of SR 25 million for the construction of the Group's Head Office building and the land of the Head Office with the book value of SR 17.4 million was designated as a collateral against this loan.

23. RETIREMENT BENEFIT OBLIGATIONS

	2018 SR	2017 SR
Balance at the beginning of the year	**38,865,590**	34,027,749
Current service cost	**5,404,570**	6,645,562
Interest cost	**1,115,926**	854,246
Paid during the year	**(4,542,632)**	(2,661,967)
Balance at the end of the year	40,843,454	38,865,590

23. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The principal assumptions used for the purposes of the actuarial valuation were as follows:

	2018	2017
Discount rate	**3.40%**	3.40%
Rate of salary increase	**3.7%**	4.02%

All movements in the retirement benefit obligation are recognized in profit or loss. The effect of the actuarial losses or gains is not material.

Sensitivity analyses

	2018 SR	2017 SR
Increase in discount rate of 1%	**626,646**	76,910
Decrease in discount rate of 1%	**(656,018)**	(189,345)
Increase in salary rate of 1%	**(1,186,852)**	(398,556)
Decrease in salary rate of 1%	**1,146,583**	380,837

Expected total benefit payments are:

	2018 SR	2017 SR
Less than a year	**12,723,319**	3,570,846
Between 1 – 5 years	**53,280,856**	17,295,651
Over 5 years	**11,220,859**	78,326,693
	77,225,034	99,193,190

24. ACCOUNTS PAYABLES

	2018 SR	2017 SR
Accounts payable – trade	**195,852,762**	126,328,508
– others	**24,799,629**	30,586,414
Due to related parties	**1,831,341**	1,517,944
	222,483,732	158,432,866

The average credit period on purchases of goods is 60 - 120 days. No interest is charged on the trade payables outstanding balance. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

25. ACCRUED EXPENSES AND OTHER LIABILITIES

	2018	2017
	SR	SR
Gift cards and vouchers	**35,087,431**	29,321,393
Advances from customers	**2,001,400**	625,922
Employee related liabilities	**16,599,833**	22,284,348
Accrued expenses	**8,054,776**	7,178,446
Accrued rentals	**3,018,604**	2,742,302
Advance rent received	-	118,951
Others	**1,308,296**	188,859
	66,070,340	62,460,221

26. SHARE CAPITAL

As of December 31, 2018 the Company's share capital was SR 360 million divided into 36 million shares of SR 10 each (2017: SR 240 million divided into 24 million shares of SR 10 each).

In October 2018, the Board of Directors proposed to increase share capital of the Company from SR 240 million to SR 360 million through issuing one bonus share for every two existing shares owned by the shareholders. Bonus shares are limited to shareholding recorded in company's shareholders register at the Securities Depository Center (Edaa), at the end of the second trading day following the date of the extraordinary general assembly day. The increase in share capital is through capitalization of retained earnings of SR 62.3 million and statutory reserve of SR 57.7 million. The increase was approved by the shareholders in their meeting held on 10 Jamuda 1440 H (corresponding to December 17, 2018). Legal formalities related to the increase in the share capital were completed during the year.

27. STATUTORY RESERVE

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws, the Company has established a statutory reserve by the appropriation of 10% of total comprehensive income until the reserve equaled 50% of the share capital. Following a recent change to the Regulations for Companies, appropriations can cease when the reserve equals 30% instead of 50% of the share capital. The Company has accordingly amended its by-laws in 2017 to comply with the new regulations. This reserve is not available for dividend distribution to the shareholders of the Company.

28. DIVIDENDS

In accordance with extra-ordinary general assembly meeting held on May 4, 2017, the Company's shareholders resolved to delegate the authority to the Board of Directors to distribute dividends to the shareholders for the year 2017. Accordingly, the Board of Directors in their meeting held on February 8, 2018 resolved to distribute cash dividends to the Company's shareholders amounting to SR 36 million at SR 1.5 per share (SR 42 million at SR 1.75 per share in July 2017). The dividend was distributed on March 21, 2018.

In accordance with extra-ordinary general assembly meeting held on May 13, 2018, the Company's shareholders resolved to delegate the authority to the Board of Directors to distribute dividends to the shareholders for the first half of the year 2018. Accordingly, the Board of Directors in their meeting held on July 23, 2018 resolved to distribute cash dividends to the Company's shareholders amounting to SR 24 million at SR 1 per share. The dividend was distributed on September 19, 2018.

29. RELATED PARTY TRANSACTIONS AND BALANCES

During the years 2018 and 2017, the Group and its subsidiary transacted with the following related parties:

Name of related party	Nature of relationship
Inheritors of Abdullah Taha Baksh	Shareholder
Saudi Arabian Marketing and Agencies Company Ltd.	Associated

The following table provides the total amount of transactions that have been entered into with related parties during the year as well as balances with related parties as at December 31, 2018 and 2017:

	Rental agreement for two showrooms	Purchases	Amounts owed by related parties	Amounts owed to related parties
2018				
Inheritors of Abdullah Taha Baksh	4,235,000	-	-	-
Saudi Arabian Marketing and Agencies Company Ltd.	-	13,609,944	-	1,831,341
2017				
Inheritors of Abdullah Taha Baksh	3,703,183	-	-	-
Saudi Arabian Marketing and Agencies Company Ltd.	-	10,543,844	-	1,517,944

Key management personnel compensation

In addition to their remunerations to key management personnel, the Group also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf. Remuneration for the year ended December 31, 2018 and 2017 of key management can be detailed as follows:

	December 31, 2018				December 31, 2017			
Description	CEO	Directors	Other executives	Total	CEO	Directors	Other executives	Total
Managerial remuneration	726,300	1,452,600	1,326,017	3,504,917	726,650	1,453,300	1,218,400	3,398,350
Allowances	280,000	617,500	511,995	1,409,495	280,000	582,500	573,853	1,436,353
Bonuses	-	-	286,500	286,500	-	-	520,000	520,000
Other Benefits	187,583	200,522	-	388,105	168,132	235,743	-	403,875
End of Service Benefits	75,000	81,000	96,632	252,632	75,000	121,875	249,500	446,375
Board member fees	200,000	1,600,000	-	1,800,000	200,000	1,500,000	-	1,700,000

30. OPERATING LEASE ARRANEGEMENTS

The Group as lessee

Operating lease payments represent rentals payable by the Group for certain office properties, show rooms, warehouse and employees' accommodation and land. Leases are negotiated for an average term of 1 to 7 years and rentals are fixed over the lease period.

Payments recognized as an expense

	2018 SR	2017 SR
Payments under operating leases recognized as an expense during the year	87,734,866	81,200,405

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

	2018 SR	2017 SR
2018	-	72,083,878
2019	**85,427,744**	70,964,009
2020	**64,475,226**	50,935,589
2021	**60,350,960**	58,471,159
2022	**61,211,674**	53,465,352
2023	**59,778,749**	48,057,064
Thereafter	**394,544,051**	341,591,797
	725,788,404	695,568,848

31. COMMITMENTS AND CONTINGENCIES

As of December 31, the Group had the following contingencies and commitments:

	2018 SR	2017 SR
Letters of credit	54,529,751	55,229,776
Letters of guarantees	14,077,944	1,880,224

The Group is subject to litigation in the normal course of its business. The Group does not believe that the outcome of these court cases will have any material impact on the Group's results or financial position.

32. COMMITMENT FOR EXPENDITURE

The capital commitments related to ongoing activities of the Group's various exhibitions is as follows:

	2018 SR	2017 SR
Commitments for Group's various exhibitions	17,162,614	2,259,870

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's principal financial liabilities comprise loans and borrowings and accounts payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include accounts receivables and cash and cash equivalents that derive directly from its operations

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management regularly review the policies and procedures to ensure that all the financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Group does not engage into any hedging activities. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

a) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings. The sensitivity analyses in the following sections relate to the position as at December 31, 2018.

Commission risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. The Group's exposure to the risk of changes in market commission rates relates primarily to the Group's long-term and short term loans with floating commission rates. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates.

The following table demonstrates the sensitivity to a reasonably possible change in commission rates on that portion of loans and borrowings affected. With all other variables held constant, the Group's profit before zakat is affected through the impact on floating rate borrowings, as follows:

	2018	2017
	SR	SR
Profit before zakat		
Increase by 100 points	**1,205,536**	1,326,892
Decrease by 100 points	**(1,205,536)**	(1,326,892)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group deals mainly in US Dollars, United Arab Emirates Dirham (AED) and Saudi Riyal. As the Saudi Riyal is pegged to the US Dollars and AED, the Group is not exposed to significant foreign currency risk.

Commodity risk

The Group is exposed to the impact of market fluctuations of the price of various merchandise supplies. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of such merchandise to manage the risk.

b) Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk on its cash and cash equivalents and accounts receivables as follows:

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	2018	2017
	SR	SR
Cash and cash equivalent	**16,333,485**	27,320,630
Accounts receivable	**30,625,806**	21,050,760
	46,959,291	48,371,390

Cash and cash equivalents and term deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks. At the reporting date, no significant concentration of credit risk were identified by the management.

Accounts receivable

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Trade receivables of the Group are spread across large number of credit customers. The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow ups. An impairment analysis is performed at each reporting date on an individual basis for major customers. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. Note 19 details the Group's maximum exposure to credit risk for financial assets that are not cash and cash equivalents. The Group evaluates the concentration of risk with respect to trade accounts receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

c) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to realize financial assets quickly at an amount close to its fair value. The Group manages its liquidity risk by monitoring working capital and cash flow requirements on regular basis. The Group manages its liquidity risk by ensuring that bank facilities are available. The Group's term of revenue and services require amounts to be paid within 30 to 90 days of the date of submitting the invoice. Trade payables are normally settled within 60 to 120 days of the date of purchase.

The table below summarizes the maturities of the Group's undiscounted financial liabilities at December 31, 2018, based on contractual payment dates and current market interest rates.

	Less than one year	**1 to 5 years**	**Above 5** years	**Total**
	SR	SR	SR	SR
December 31, 2018				
Accounts payable	**222,483,732**	-	-	**222,483,732**
Accrued expenses and other liabilities	**64,068,940**	-	-	**64,068,940**
Borrowings	**64,719,656**	**62,542,567**	-	**127,262,223**
	351,272,328	62,542,567	-	413,814,895
December 31, 2017				
Accounts payable	158,432,866	-	-	158,432,866
Accrued expenses and other liabilities	61,715,348	-	-	61,715,348
Borrowings	53,823,817	89,583,647	-	143,407,464
	273,972,031	89,583,647	-	363,555,678

34. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The carrying amount of financial assets and financial liabilities approximates their fair value. The Group only presents unquoted equity investments at FVTOCI under fair valuation model.

The following table shows the fair values of financial asset, including its level in the fair value hierarchy.

	2018	2017
	SR	SR
Level 3		
Unquoted equity investments at FVTOCI	9,662,153	9,662,153

There were no transfers among level 1, 2, and 3 for the year ended December 31, 2018 and for the year ended December 31, 2017.

35. EVENT AFTER THE REPORTING PERIOD

Subsequent to year end, the Group Board of Directors in their meeting held on February 26, 2019 resolved to distribute cash dividends to the Company's shareholders amounting to SR 36 million at SR 1 per share.

36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

This consolidated financial information have been approved by the Board of Directors on February 26, 2019 corresponding to 21 Jumada II 1440.