

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

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(UNAUDITED)**

**FOR THE SIX MONTHS PERIOD ENDED
30 JUNE 2015**

WITH INDEPENDENT AUDITORS' REVIEW REPORT

UNITED COMPANY FOR ELECTRONICS
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

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**LIMITED REVIEW REPORT ON THE INTERIM
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**The Shareholders
UNITED COMPANY FOR ELECTRONICS and its Subsidiaries
(A Saudi Joint Stock Company)
Al-Khobar, Kingdom of Saudi Arabia**

Scope of review:

We have reviewed the accompanying interim consolidated balance sheet of **United Company for Electronics and its Subsidiaries** (the "Company") as at 30 June 2015, the related interim consolidated statement of income, the interim consolidated statement of cash flows and the interim consolidated statement of changes in shareholders' equity for the six month period ended 30 June 2015 and the attached interim condensed consolidated notes 1 to 14 which form an integral part of these interim condensed consolidated financial statements. These interim condensed consolidated financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our limited review.

We conducted our limited review in accordance with the auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express such an opinion.

Conclusion:

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Al Sadhan

Tareq Abdulrahman Al Sadhan
License No: 352



Al Khobar, 28 July 2015
Corresponding to: 12 Shawwal 1436H

UNITED COMPANY FOR ELECTRONICS
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)

AS AT 30 JUNE 2015

(Expressed in Saudi Riyals)

	Note	30 JUNE 2015 UNAUDITED	30 JUNE 2014 UNAUDITED
ASSETS			
Current assets			
Cash and cash equivalents		175,628,539	63,163,911
Investment in trading securities		-	2,752,862
Accounts receivables, net		33,727,881	26,576,056
Inventories		600,569,763	505,379,051
Prepayments and other current assets		72,866,965	79,012,285
Total current assets		882,793,148	676,884,165
Non-current assets			
Deferred tax asset		641,843	-
Property, plant and equipment		499,824,103	462,561,620
Total non-current assets		500,465,946	462,561,620
Total assets		1,383,259,094	1,139,445,785
LIABILITIES			
Current liabilities			
Accounts payable		665,875,420	418,840,682
Other creditors and accruals		89,653,874	90,985,542
Deferred revenue - short term portion		7,181,620	7,392,170
Murabaha Finance –Medium term	8	20,000,000	37,500,000
Zakat provision	5	689,164	2,138,570
Total current liabilities		783,400,078	556,856,964
Non-current liabilities			
Murabaha Finance –Medium term	8	20,000,000	-
Deferred revenue – long term portion		6,709,264	7,111,177
Employees' end of service benefits		44,612,073	36,214,665
Total non-current liabilities		71,321,337	43,325,842
Total liabilities		854,721,415	600,182,806
SHAREHOLDERS' EQUITY			
Share capital		360,000,000	300,000,000
Statutory reserve		63,961,573	57,368,499
Retained earnings		104,451,144	181,913,483
Foreign exchange translation reserve		122,792	(22,003)
Total Shareholders' equity		528,535,509	539,259,979
Non- controlling interest		2,170	3,000
Total equity		528,537,679	539,262,979
Total liabilities and shareholders' equity		1,383,259,094	1,139,445,785

The interim condensed consolidated financial statements appearing on pages (1) to (14) were approved by the Board of Directors on 16 July 2015, corresponding to 29 Ramadan 1436H and have been signed on its behalf by:

Finance Manger

General Manger

Board of Director

The accompanying notes 1 through 14 form an integral part of these interim condensed consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
FOR THE THREE AND SIX MONTHS PERIOD ENDED 30 JUNE 2015

(Expressed in Saudi Riyals)

	Note	For the three month period ended 30 June		For the six month period ended 30 June	
		2015	2014	2015	2014
Revenue	10	879,594,143	984,284,996	1,751,401,947	1,791,616,829
Cost of Revenue	11	(740,596,427)	(816,320,925)	(1,478,202,913)	(1,478,812,490)
Gross profit		138,997,716	167,964,071	273,199,034	312,804,339
Selling and marketing expenses		(100,877,397)	(83,585,119)	(190,939,954)	(168,787,422)
General and administrative expenses		(24,907,204)	(28,241,355)	(51,505,920)	(57,238,074)
Operating income		13,213,115	56,137,597	30,753,160	86,778,843
Finance expenses		(701,171)	(1,071,958)	(1,282,291)	(1,823,743)
Gain on investments available for sale		1,697,234	538,758	1,697,234	538,758
Other income (loss)		(2,000,567)	(144,751)	(2,447,286)	(33,495)
Income before Zakat		12,208,611	55,459,646	28,720,817	85,460,363
Zakat	5	(1,026,964)	(1,689,204)	(1,459,847)	(2,440,222)
Deferred tax revenue		645,213	-	645,213	-
Net income for the period		11,826,860	53,770,442	27,906,183	83,020,141
Attributable to:					
Shareholders		11,826,860	53,770,442	27,906,183	83,020,141
Non controlling interest		-	-	-	-
Net income for the period		11,826,860	53,770,442	27,906,183	83,020,141
Earning per share:					
Earnings per share from operating income	9	0.26	0.18	0.96	2.89
Earnings per share from net income	9	0.33	0.56	0.87	2.77

The accompanying notes 1 through 14 form an integral part of these interim condensed consolidated financial statements.

Finance Manger

General Manger

Board of Director

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

INTERIM CONDENSED CONSOLIDATED CASH FLOWS (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015
(Expressed in Saudi Arabian Riyals)

	For the six month period ended 30 JUNE	
	2015	2014
	(UNAUDITED)	(UNAUDITED)
Cash flows from operating activities:		
Net income for the period	27,906,183	83,020,141
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation	23,053,758	21,795,283
Loss from sale of property, plant and equipment	1,343,623	(105,430)
Finance expense	1,282,291	1,823,743
Zakat provision	1,459,847	2,440,222
Gain on Investments	(1,697,234)	(538,758)
Employees' end of service benefits	5,415,327	4,776,453
Deferred tax -credit	(641,843)	-
	58,121,952	113,211,654
<u>Changes in operating assets and liabilities:</u>		
Accounts receivable	(8,883,147)	(10,764,628)
Inventories	64,843,189	(25,346,383)
Prepayments and other current assets	(13,263,136)	(15,799,729)
Accounts payables	62,837,671	-
Other creditots and accruals	(1,154,004)	-
Deferred revenue	(207,605)	89,108,130
Employees' end of service benefits paid	(1,234,784)	(1,607,351)
Finance expense paid	(1,282,291)	(1,823,743)
Board remuneration	(1,800,000)	(1,800,000)
Zakat paid	(3,874,462)	(4,696,623)
Net cash provided by operating activities	154,103,383	140,481,327
<u>Cash flows from investing activities</u>		
Purchases property, plant and equipment	(26,326,673)	(25,330,550)
Proceed from disposal of plant, equipment and equipment	513,776	127,650
Tading investement	1,697,234	(2,214,104)
Consolidating subsidiary	-	300,000
Net cash used in investing activities	(24,115,663)	(27,117,004)
<u>Cash flows from financing activities:</u>		
Dividends paid	(15,000,000)	(82,500,000)
Murabha finance payment	(10,000,000)	(2,500,000)
Net cash used in financing activities	(25,000,000)	(85,000,000)
Net change in cash and cash equivalents	104,987,720	28,364,323
Movement in foreign exchange translation	174,331	(18,351)
Cash and cash equivalent at the beginning of the period	70,466,488	34,817,939
Cash and cash equivalents at end of the period	175,628,539	63,163,911

The accompanying notes 1 through 14 form an integral part of these interim condensed consolidated financial statements.

Finance Manger

General Manger

Board of Director

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

(Expressed in Saudi Arabian Riyals)

	Share capital	Statutory reserve	Retained earnings	Cumulative translation	Equity attributable to shareholders of the Company	Non-controlling interest	Total
Balance as at 1 January 2014 (audited)	300,000,000	49,066,485	138,995,356	(3,652)	488,058,189	3,000	488,061,189
Net income for the period ended 30 June 2014 (unaudited)	-	-	83,020,141	-	83,020,141	-	83,020,141
Transfer to statutory reserve	-	8,302,014	(8,302,014)	-	-	-	-
Dividends	-	-	(30,000,000)	-	(30,000,000)	-	(30,000,000)
Board of directors rewards	-	-	(1,800,000)	-	(1,800,000)	-	(1,800,000)
Translation difference during the period	-	-	-	(18,351)	(18,351)	-	(18,351)
Balance as at 30 June 2014	300,000,000	57,368,499	181,913,483	(22,003)	539,259,979	3,000	539,262,979
Balance as at 1 January 2015 (audited)	300,000,000	61,170,955	156,135,579	(51,539)	517,254,995	2,170	517,257,165
Net income for the period ended 30 June 2015 (unaudited)	-	-	27,906,183	-	27,906,183	-	27,906,183
Transfer to statutory reserve	-	2,790,618	(2,790,618)	-	-	-	-
Dividends	-	-	(15,000,000)	-	(15,000,000)	-	(15,000,000)
Board of directors rewards	-	-	(1,800,000)	-	(1,800,000)	-	(1,800,000)
Capital increase	60,000,000	-	(60,000,000)	-	-	-	-
Translation difference during the period	-	-	-	174,331	174,331	-	174,331
Balance as at 30 June 2015	360,000,000	63,961,573	104,451,144	122,792	528,535,509	2,170	528,537,679

The accompanying notes 1 through 14 form an integral of these interim condensed consolidated financial statements.

Finance Manger

General Manger

Board of Director

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2015
(Expressed in Saudi Riyals)

1) ORGANIZATION AND PRINCIPAL ACTIVITIES

UNITED COMPANY FOR ELECTRONICS and its Subsidiaries (referred herein as The “Company”) is a Saudi joint stock Company initially registered in Riyadh under commercial registration No, 1010175357 dated 19 Moharram 1423 H (corresponding to 1 April 2002). In 2004 the Company’s registered office was transferred from Riyadh to AL Khobar and, accordingly, the commercial Registration number was changed to 2051029841 dated 10 Jumada II, 1425 H (corresponding to 27 July 2004), From 24 December, 2011, the shares of the company have been listed on Saudi Stock Exchange “Tadawul”,

As of 31 December, 2014 the company’s shares capital was SR 300 million divided into 30 million shares of SR 10 each, However, on 27 April 2015, the General assembly agreed to increase the company capital by SR 60 million to be SR 360 million divided into 36 million shares of SR 10 each.

The Company’s principle permissible activities are the wholesale and retail in food, electrical appliances, electronic gadgets, computers and their spare parts and accessories, furniture, office equipment and tools, auto recorded installation, maintenance and repair services, establishment of restaurants and marketing for others.

The following are the subsidiaries of the company, the assets and liabilities and result of operations and cash flow of these subsidiaries have been included in the consolidated financial statements of the Company.

The following name of consolidated subsidiaries

Effective ownership

United Electronics company Extra S.P.C. a company registered in Bahrain	100%
United Electronics company Extra L.L.C. a company registered in Oman	100%
United Electronics company Maintenance and Electronics Company Limited, a company registered in the Kingdom of Saudi Arabia	99%

- 1- United Electronics Company-Extra S.P.C., is registered in Bahrain on 15 Dhul-Qa’da 1432H (corresponding to 13 October 2011). The principal activities of this subsidiaries are importing, exporting and trading for electrical and electronics devices and their spare parts and for computers and their supplies, selling visual and vocal media materials, importing and exporting computer related programs and systems, importing and exporting for electric games, providing maintenance for electric devices in addition to the management and development of personal properties.
- 2- United Electronics Company-Extra L.L.C. is registered in Oman on 15 Jumada I, 1433H (corresponding to 7 April 2012), the principal activities are retail of computer, non-customized softwares, household appliances (radio, television, refrigerators, crockery etc.), toys, games, satellites and phones. This subsidiary commenced its operations on January 18, 2013.
- 3- United Computers Maintenance and Electronics Company Limited, a Saudi limited liability company incorporated on 10 Rajab 1431H (corresponding to 22 June 2010). The principal activities are maintenance and repair and providing warranty for electronics, digital and electrical devices, home appliances and computers and wholesale trading and spare parts in electrical and digital devices, photocopy and fax machines, telephones, cell phones, video and electric games, digital pocket assistants, printer and computer related devices.
- 4- The Company has 37 branches in the Kingdom Of Saudi Arabia as of June 30, 2015 (36 branches as of December 31, 2014).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2015
(Expressed in Saudi Riyals)

2) **BASIS OF PREPARATION**

(a) **Statement of compliance**

These accompanying interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA) and in the light of the relevant Saudi Laws and Regulations.

(b) **Basis of measurement**

These interim condensed consolidated financial statements have been prepared on a historical cost basis using the accrual basis of accounting and the going concern concept.

(c) **Functional and presentation currency**

These interim condensed consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Company.

(d) **Use of estimates and judgments**

The preparation of financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these judgements and estimates of assumptions are prepared in the light of the most recent and relevant information available to management. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. In particular, information about significant areas of estimated uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the interim condensed consolidated financial statements are described in the following notes:

Note 5	- Zakat and Income Tax
Note 6	- Contingencies
Note 12	- Financial instruments

3) **SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set below have been applied consistently to all periods presented in the interim condensed consolidated Financial statements.

Certain comparative figures have been reclassified to conform with current year's presentation.

These interim condensed consolidated financial statements and notes thereto should be read in conjunction with the annual audited consolidated financial statements and related notes for the year ended 31 December 2014.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2015
(Expressed in Saudi Riyals)

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

a) **Basis of consolidation**

These consolidated financial statements include the financial statements of the Company and its subsidiaries set forth in Note (1) above. Subsidiaries are entities controlled by the Holding company. Control is resumed to exist when the Holding Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases, All intra-group balances and financial transactions resulting from transactions between the Company and the subsidiaries and those arising between the subsidiaries are eliminated in preparing these consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

b) **Cash and cash equivalents**

Cash and cash equivalents include cash on hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date deducting bank overdrafts, if any. Cash flow statement has been prepared using the indirect method.

c) **Accounts receivable**

Accounts receivable are carried at original amounts less provision made for doubtful accounts. A provision for doubtful accounts is established when there is a significant doubt that the Company will not be able to collect all amounts due according to the original terms of invoice. Such provision is charged to the interim statement of income and reported under "Selling and Marketing expenses". When accounts receivable are uncollectible, they are written-off against the provision for doubtful accounts. Any subsequent recoveries of amounts previously written-off are credited against "other revenues" in the interim consolidated Statement of Income.

d) **Inventories**

Inventories are valued at the lower of cost or net realizable value. Cost is determined on the weighted-average method.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

The value of inventory is reduced slow-moving, according to management estimates and inventory movement.

e) **Investment in securities available for sale**

Investments in trading securities, which are purchased for trading purposes, are initially recorded at cost then remeasured and recorded at market value under current assets in the balance sheet. Profits or losses realized or unrealized from selling securities available for sale and changes in market values are recorded at the balance sheet date or charged to the interim consolidated statement of income.

f) **Property, plant and equipment**

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss, if any. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognized in the statement of income when incurred.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2015
(Expressed in Saudi Riyals)

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

f) **Property, plant and equipment (Continued)**

Depreciation is charged to the interim consolidated statement of income on a straight-line basis over the estimated useful lives of individual item of property, plant and equipment,

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of fixed asset and are recognized net within "other income" in the interim consolidated statement of income.

The estimated assets useful lives are as follows:

<u>Item</u>	<u>Years</u>
Buildings and leasehold improvement	10- 33 years
Furniture, Fixture and office equipment	4-10 years
Vehicles	5 years

g) **Construction under progress**

Constructions under progress represents the accumulated costs incurred by the company in relation to the construction of its building and structures. Cost incurred for the construction of property, plant and equipments are initially charged to the construction under progress then these expenses are transferred to property, plant and equipment when the construction of these facilities are completed. Finance costs on borrowings attributable to the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

h) **Impairment of assets**

Financial assets

A financial asset is assessed at each annual reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

Non- financial assets

The carrying amounts of non-financial assets of the Company, except inventories, assets held for sale and assets resulting from construction contracts, if any, are reviewed at the date of the financial statements to ascertain whether there is an event or changes in circumstances indicating that the carrying amount of an asset exceeds its recoverable amount.

When such indicator exists, the recoverable amount of the asset is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less cost to sell. The impairment calculated as the difference between the carrying amount and estimated recoverable amount, discounted using the effective interest rate.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2015
(Expressed in Saudi Riyals)

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

(h) **Impairment of assets (Continued)**

A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognized in respect of cash- generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit on a pro rata basis.

Impairment losses in respect of other intangible assets in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) **Accounts payable and accruals**

Liabilities are recognized for amounts to be paid for goods received and services rendered, whether or not billed to the Group.

(j) **Zakat and income tax**

The company is subject to the regulations of the Department of Zakat and Income Tax ("DZIT") in the kingdom of Saudi Arabia, Zakat and Income Tax are provided on an accrual basis and charged to the statement income. The Zakat charge is computed on the zakat base and income tax is computed on the adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

Deferred Tax

Deferred tax is provided for, using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on laws that have been enacted in the respective countries at the reporting date. Deferred tax assets are recognized for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized. The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

(k) **Employees' end of service benefits**

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to consolidated statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his/ her services be terminated at the balance sheet date.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2015
(Expressed in Saudi Riyals)

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

Revenue from sale of goods is recognized upon delivery or shipment of products to customers and is recorded net of returns, trade discounts and volume rebates.

Revenue from the sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- There is sufficient expectation that economic benefits will flow to the company; and
- It is probable that the costs that are charged or will be charged to the company with the transaction can be accurately determined,

Revenue from the services

Revenue from the additional services program is recognized, according to the services rendered. A particular portion of the collected revenue is deferred and amortized over the service agreement period.

Revenue from service is recognized when all the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- There is sufficient expectation that economic benefits will flow to the company;
- The percentage of completion at the end of periods presented at the financial statements can be accurately determined, and

It is probable that the costs that are charged to the company with the transaction can be accurately determined.

Other revenue

Other revenues are recognized according to the accrual basis.

(l) **Expenses**

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

(m) **Leasing**

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

(n) **Interim results of operations**

The financial statements have been presented with comparative figures of the same period in previous year in accordance with the SOCPA standard of interim financial statements. All significant adjustments, that management believe that necessary for the fair presentation of interim financial statements and the result of the Company's operation were made.

These interim condensed consolidated financial statements and notes thereto should be read in conjunction with the annual audited consolidated financial statements and related notes for the year ended 31 December 2014.

The results of operations in these interim condensed financial statements do not necessarily represent an accurate indicator of the results of operations at year end.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2015
(Expressed in Saudi Riyals)

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Segmental reporting

A segment is a distinguishable component of the Company that is engaged in providing products, 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. Because the management views the whole activities of the Company as one operating segment, reporting is provided by geographical segments only.

(p) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

4) RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of its business, the Company deals with its related parties, which include purchases, sales, inter-group transactions and expenses charged with related parties. These terms and conditions of such transactions are approved by the Company's management. The significant Related parties are listed as follows:

<u>Name of entity</u>	<u>Relationship</u>
Digital and Electronic Sololutions Development Company ("DESD") and its subsidiary	Affiliate of a shareholder

During the period ended 30 June the Company had the following significant transactions with its related parties.

<u>Related Party</u>	<u>Nature of transactions</u>	<u>2015</u>	<u>2014</u>
Digital and Electronic Sololutions Development Company ("DESD") and its subsidiary	Purchases	183,233,549	182,366,582

Trade payable include balance payable the DESD and its subsidiary amounted to SR 42,025,148 (30 June 2014: SR 32,669,425).

5) ZAKAT and Tax PROVISION

As per the Saudi Regulations, the Saudi Shareholders are subject to Zakat calculated according to regulations promulgated by the government authorities computed at 2,5%.

Computation and provision of estimated Zakat and Income Tax liability are made quarterly, Adjustments arising from final zakat assessments are recorded in the period in which such assessments are approved.

6) CONTINGENCIES AND CAPITAL COMITMENT

Contingencies as at June 30, comprise of the following:

	<u>2015</u>	<u>2014</u>
Bank guarantees	56,668,498	57,861,498
letters of credit	181,768,422	116,997,593

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7) **BANK FACILITIES**

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

8) **MURABAHA FINANCE**

	<u>30 JUNE 2015</u>	<u>30 JUNE 2014</u>
Murabaha Finance and Current Portion of Medium term finance	20,000,000	37,500,000
Murabaha Medium term finance	20,000,000	-

The maturity profile of the above Murabaha medium term finance at 30 June, 2015 based on the repayment schedule is as follows:

	<u>2015</u>	<u>2014</u>
2015	10,000,000	-
2016	20,000,000	-
2017	10,000,000	-

9) **EARNING PER SHARE**

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. With regard to diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. During the period there were no matters that could lead to the dilution of the number of shares, accordingly the basic and diluted number of shares are equal.

<i>Basic earnings per share</i>	<u>2015</u> <u>(Unaudited)</u>	<u>2014</u> <u>(Unaudited)</u>
Net income for the period	<u>27,906,183</u>	<u>83,020,141</u>
Weighted average number of outstanding shares		
Number of issued shares	30,000,000	30,000,000
Add: Weighted average number of shares issued	<u>2,133,133</u>	<u>-</u>
Weighted average number of outstanding shares	<u>32,133,333</u>	<u>30,000,000</u>
Basic and diluted earnings per share from net income	<u>0.87</u>	<u>2.77</u>
Basic and diluted earnings per share from operating income	<u>0.96</u>	<u>2.89</u>

10) **Revenue**

Revenue as at June 30, comprise of the following:

	<u>2015</u>	<u>2014</u>
Stores revenue	1,747,410,770	1,788,846,044
Other operating income	<u>3,991,177</u>	<u>2,770,785</u>
	<u>1,751,401,947</u>	<u>1,791,616,829</u>

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11) SEGMENTAL REPORTING

The management of the Company views the entire business activities of the Company as one operating segment for performance assessment and resources allocation.

Because the management views the entire business activities of the Company as one segment, segment reporting is provided by geographical segments only. The details of the local sales and subsidiaries sales outside the Kingdom for the six months period ended 30 June 2015 and 2014 are as follows:

<u>2015 (Unaudited)</u>	<u>Local sales</u>	<u>International sales</u>	<u>Total</u>
Sales	1,655,903,306	95,498,641	1,751,401,947
Cost of sales	(1,395,159,618)	(83,043,295)	(1,478,202,913)
Gross profit	260,743,688	12,455,346	273,199,034
Gross profit percentage	16%	13%	16%
<u>2014 (Unaudited)</u>	<u>Local sales</u>	<u>International sales</u>	<u>Total</u>
Sales	1,697,381,070	94,235,759	1,791,616,829
Cost of sales	(1,397,282,620)	(81,529,870)	(1,478,812,490)
Gross profit	300,098,450	12,705,889	312,804,339
Gross profit percentage	17%	13%	17%

12) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the interim consolidated balance sheet include cash and cash equivalents, trade and other accounts receivable, investments, trade payable, and other liabilities.

Credit risk is the risk that one party may fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has no significant concentration of credit risks, Cash and cash equivalents are placed with local banks with sound credit ratings. Trade and other accounts receivable are mainly due from local customers and related parties and are stated at their estimated realizable values.

Interest rate risk is the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's interest rate risk arise mainly from short term bank deposits and bank debts and long term debts, which are at floating rates of interest.

Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Company are not significant.

Liquidity risk is the risk that an enterprise may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to realize the value of a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet Company's future commitments.

Currency risk is the risk that the value of a financial instrument may fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi riyal, Bahrain dinar and Oman riyal, Other transactions in foreign currencies other than Bahrain dinar and Oman riyal are not material, Currency risk is managed on regular basis.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the accompanying interim condensed consolidated financial statements are prepared under the historical cost method differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

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13) SIGNIFICANT EVENTS

United Electronics Company Announces (Extra) signed a letter on 17 Shaaban 1436 H, corresponding to 4 June, 2015 with Mohammad Yousuf Al Sakr and Associates in International Regions Company to acquire 51% of the company a group that works in the field of fashion retail them (DKNY, Kenzo, Max Mara, Koton etc ..) and shoes (Jimmy Choo, ecco etc ..) and accessories (On Time, Trinkets etc ..), and after the restructuring will have more than 240 branches in seven countries in the region.

This letter is subject to satisfactory completion of due diligence other procedures. Accordingly, it does not have significant effect on the balances reported in these Financial Statements, and final agreed between parties.

14) COMPARATIVE FIGURES

Certain reclassifications have been made to the prior period balances to be consistent with the current period presentations.