Prospectus

Saudi Company for Hardware (SACO)

A Saudi joint stock company established pursuant to H.E Minister of Commerce and Industry Resolution No. 178/Q dated 26/05/1432H (corresponding to 30/04/2011G) under Commercial Registration No. 1010056595 dated 26/02/1405H (corresponding to 19/11/1984G).

This Prospectus relates to the sale of 7,200,000 ordinary shares representing 30% of the share capital of Saudi Company for Hardware (SACO) through an Initial Public Offering at an Offer Price of SAR 70 per Share (with a fully paid nominal value of SAR 10 per share)

Offer Period: from Wednesday 03/07/1436H (corresponding to 22/04/2015G)

to Tuesday 09/07/1436H (corresponding to 28/04/2015G)

Saudi Company for Hardware (hereinafter referred to as the "**Company**" or "**SACO**") is a Saudi joint stock company established pursuant to H.E Minister of Commerce and Industry Resolution No. 178/Q dated 26/05/1432H (corresponding to 30/04/2011G) under Commercial Registration No. 1010056595 dated 26/02/1405H (corresponding to 19/11/1984G). SACO was incorporated in Riyadh as a limited liability company with a share capital of ten million Saudi riyals (SAR 10,000,000). In 1990G, the Company's share capital was increased from ten million Saudi riyals (SAR 10,000,000) to sixteen million Saudi riyals (SAR 16,000,000) through the capitalization of loans provided by the partners to the Company. In 2011G, the Company was converted into a Saudi joint stock company pursuant to H.E Minister of Commerce and Industry Resolution No. 178/Q dated 26/05/1432H (corresponding to 30/04/2011G). On 27/07/1435H (corresponding to 26/05/2014G), the Company's share capital was increased from sixteen million Saudi riyals (SAR 16,000,000) to two hundred forty million Saudi riyals (SAR 240,000,000) through the capitalization of retained earnings of the Company. The current share capital of the Company is two hundred forty million Saudi riyals (SAR 240,000,000) divided into twenty-four million (24,000,000) ordinary shares (fully paid) with a nominal value of ten Saudi riyals (SAR 10) per share.

The public offering of the Company's shares (the "**Offering**" or "**Subscription**") shall be for seven million two hundred thousand (7,200,000) ordinary shares (the "**Offer Shares**" or "**Subscription Shares**") with a fully paid nominal value of ten Saudi riyals (SAR 10) per share. The Subscription price is set at SAR 10 per share. The Subscription Shares represent 30% of the share capital of the Company, and shall be limited to the following two tranches of investors:

Tranche (A): Institutional Investors. This tranche includes a number of institutions including mutual funds (referred to collectively as "**Institutional Investors**") (please see Section 1, "**Terms and Definitions**"). The number of Offer Shares to be allocated to Institutional Investors is seven million two hundred thousand (7,200,000) Offer Shares representing 100% of the total number of Offer Shares. In the event that Individual Investors (defined under **Tranche** (**B**) below) subscribe for the Offer Shares, the Lead Manager may, after obtaining approval from the Capital Market Authority ("**CMA**"), reduce the number of shares allocated to Institutional Investors to four million three hundred and twenty thousand (4,320,000) ordinary shares, representing 60% of the total Offer Shares. 90% of the shares in Tranche A will be allocated to mutual funds, although this percentage is subject to change in the event that other institutional investors excluding these mutual funds do not subscribe for the full remaining percentage (10%) or in the event that the mutual funds do not subscribe to the full percentage allocated to them corresponding to (90%).

Tranche (B): Individual Investors. This tranche includes Saudi natural persons including a Saudi female divorcee or widow from a marriage to a non-Saudi who can subscribe for the Offer Shares for her own benefit, in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor children (referred to collectively as "**Individual Investors**" and individually "**Individual Investor**"). Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature has been proved to have occurred, then the regulations shall be enforced against the concerned applicant. A maximum number of two million eight hundred and eighty thousand (2,880,000) Shares representing 40% of the Offer Shares shall be allocated to Individual Investors. In the event the Individual Investors do not subscribe to all the Shares allocated to them, the Lead Manager may reduce the number of shares allocated to Individual Investors in proportion to the number of shares subscribed by them, subject to the approval of the CMA.

The Offer Shares are being sold by the shareholders whose names appear on page x (collectively, the "**Selling Shareholders**"), and who collectively own 100% of the Company Shares prior to the Subscription. Upon completion of the Subscription, the Selling Shareholders will collectively own 70% of the Company Shares and will consequently retain a controlling interest. The major shareholders in the Company are Al Hamidi Contracting Establishment Company, Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly. After deducting the Offering expenses, the proceeds from the Offering (the "**Net Proceeds**") will be distributed to the Selling Shareholders pro-rated to the percentage owned by each Shareholder in the Subscription Shares. The Company will not receive any part of the Net Proceeds (see Section 8, "**Use of Proceeds**"). The Offer has been fully underwritten by the Underwriter (for more information, see Section 12, "**Underwriting**"). The Selling Shareholders may not dispose of any Shares for the period of 9 months from the date on which trading of the Offer Shares commences on the Saudi Exchange (Tadawul). After the 9 month restriction period has elapsed, the Selling Shareholders may only dispose of their Shares after obtaining CMA approval.

The Offering will commence on Wednesday 03/07/1436H (corresponding to 22/04/2015G) and will remain open for a period of 7 days up to and including the closing day on Tuesday 09/07/1436H (corresponding to 28/04/2015G) (the "**Offering Period**"). Subscription to the Offer Shares can be made through branches of the Receiving Agents (the "**Receiving Agents**") listed on page viii of this Prospectus during the Subscription Period (for more information, please see section 15, "**Subscription Terms and Instructions**"). Institutional Investors can subscribe to the Offer Shares through the Institutional Book Runner during the book building process prior the Offering being made available to Individual Investors.

Individual Investors who subscribe for the Offer Shares must subscribe for a minimum of ten (10) Shares. Each Individual Investor will be allocated a minimum of ten (10) Offer Shares and a maximum of two hundred fifty thousand (250,000) Offer Shares. The remaining Offer Shares, if any, will be allocated on a pro rata basis to the total number of Offer Shares subscribed for by each Subscriber. In the event that the number of Individual Investors exceeds (288,000), the Company will not guarantee the minimum allocation of Offer Shares per Subscriber, and the Offer Shares will be allocated equally between all Subscribers. If the number of Individual Investors exceeds (2,880,000), the allocation will be determined at the discretion of the Company and the Financial Advisor. Excess subscription monies, if any, will be refunded to the Subscribers without any charge or withholding. Notification of the final allotment and refund of subscription monies, if any, will be made at the latest by 16/07/1436H (corresponding to 05/05/2015G). (See section 16 "Subscription Terms and Conditions").

The Company has one class of ordinary shares. Each Share entitles its holder to one vote and each shareholder (the "Shareholder") holding at least twenty (20) Shares has the right to attend and vote at the General Assembly of Shareholders (the "General Assembly Meeting"). There are no shares that give their bearer preferential voting rights. The Offer Shares will entitle holders to receive any dividends declared by the Company from the date of this Prospectus and subsequent fiscal years. (See Section 7, "Dividend Policy", for more information).

Prior to the Offering, the Company's shares were not traded on any market in Saudi Arabia or elsewhere. The Company has submitted an application to the CMA for the admission and listing of the Shares . All requirements have been met and all official approvals relating to the Offering have been obtained. Trading of the Offer Shares is expected to commence on the Saudi Stock Exchange (Tadawul) (the "**Exchange**" or "**Tadawul**") soon after the final allocation of the Offer Shares and completion of all relevant regulatory requirements (See the "**Key Dates for Subscribers**" section). Following the start of trading on the Exchange, Saudi nationals, non-Saudi nationals holding valid residency permits in Saudi Arabia, Saudi and Gulf companies, banks, and mutual funds as well as GCC nationals will be permitted to trade in the Offer Shares. Non-Saudi individuals living outside the Kingdom and institutions registered outside the Kingdom (hereinafter referred to as "**Foreign Investors**") are also entitled to acquire economic benefits in the shares by entering into swap agreements with persons authorized by the CMA (hereinafter referred to as "**Authorized Persons**") to purchase shares listed on the Exchange and to trade these shares for foreign investors. Authorized Persons will remain the legal owners of the shares under the swap agreements.

Sections titled "Important Notice" on page [ii] and "Risk Factors" in Section 2 of this Prospectus should be considered carefully prior to making a decision to invest in the Offering.

Financial Advisor, Lead Manager and Underwriter

HSBC

Receiving Agents

SABB ساب | Banque Saudi Fransi | Al Rajhi Bank | NCB الأهلي | بنك الرياض riyad bank | samba سامبا

This Prospectus is dated 05/06/1436H (corresponding to 25/03/2015G).

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Important Notice

This Prospectus contains detailed information relating to the Company and the Offer Shares. When applying for the Offer Shares, Institutional Investors and Individual Investors will be treated as applying solely on the basis of the information contained in this Prospectus, copies of which are available for collection from the Receiving Agents or by visiting the websites of the Company (www.saco-ksa.com) or the CMA (www.cma.org.sa).

The Company has appointed HSBC Saudi Arabia Limited as the financial advisor (the "**Financial Advisor**"), lead manager (the "**Lead Manager**"), Institutional Investor bookrunner (the "**Institutional Book Runner**") and underwriter (the "Underwriter") in relation to the Offer Shares described herein.

This Prospectus includes information provided in compliance with the Listing Rules of the CMA. The Directors, whose names appear on page (v), collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm that, having made all reasonable enquiries and to the best of their knowledge and belief, there are no other facts the omission of which would render any statement herein misleading. The CMA and the Exchange do not take any responsibility for the contents of this Prospectus, do not make any representations as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

Although the Company has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as of the date of its publication, a substantial portion of the market and industry information herein are derived from external sources. While neither the Company nor any of the Company's advisors, whose names appear on pages (vi) and (vii) of this Prospectus (the "**Advisors**"), have any reason to believe that any of the market and industry information is materially inaccurate, neither the Company nor any of the Advisors has independently verified such information. Accordingly, no representation or assurance is made with respect to the accuracy or completeness of any of this information.

The information contained in this Prospectus as at the publication date is subject to change. In particular, the actual financial condition of the Company and the value of the Offer Shares may be adversely affected by future developments in inflation, interest rates, taxation or other economic, political and other factors that the Company does not control (for more information, see section 2, "Risk Factors"). Neither the delivery of this Prospectus nor any oral, written or printed information related to the Offer Shares is intended to be, nor should be construed as or relied upon in any way as, a promise or representation as to future earnings, results or events.

The Prospectus should not to be regarded as a recommendation on the part of the Company, the Directors, the Selling Shareholders, Receiving Agents, or any of the Company's Advisors to participate in the Offering. Moreover, the information provided in this Prospectus is of a general nature and has been prepared without taking into account individual investment objectives, financial situation or particular investment needs of the Subscriber. Prior to making an investment decision, each recipient of this Prospectus is responsible for obtaining independent professional advice on the Offering from a financial advisor licensed by CMA and for evaluating the appropriateness of the investment opportunity and information in this Prospectus with regard to the individual's objectives, financial situation and needs. An investment in the Offer Shares may be appropriate for some investors but not others. Prospective investors should not rely on another party's decisions due to the differences in individual and investment circumstances among investors.

The Offer is limited to the following two tranches:

Tranche (A) Institutional Investors: This tranche includes a number of institutions, including mutual funds (see Section 1, "Terms and Definitions").

Tranche (B) Individual Investors: This tranche includes Saudi natural persons including a Saudi female divorcee or widow from a marriage to a non-Saudi who can subscribe for Offer Shares for her own benefit, in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor children. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature has been proved to have occurred, then the regulations shall be enforced against the concerned applicant.

The distribution of this Prospectus and the sale of Offer Shares in any country other than Saudi Arabia are expressly prohibited. Recipients of this Prospectus are required to inform themselves of any regulatory restrictions relevant to this Offering, the sale of the Offer Shares, and to observe all such restrictions.

Industry and Market Data

In this Prospectus, the information relating to the market and sector in which the Company operates has been obtained from: (1) Company estimates; and (2) data and analysis of such segments by Euromonitor International Limited (the "**Industry and Market Consultant**"), a private company established in 1972G and headquartered in London. Euromonitor International Limited specializes in market research and provides market studies and reports on business information and data regarding the sector in which the Company operates. Euromonitor International Limited employs more than a thousand analysts and consultants worldwide who provide market information in many countries. Euromonitor publishes market reports and brief overviews of companies and provides references, current market information and future projections.

Industry and market data is subject to change and cannot always be verified with complete certainty due to limits on the availability of raw data and other difficulties, given the nature of the data gathering process in a market of this size.

The Company's Board of Directors believes that the information and data contained in this Prospectus and derived from the data and analysis prepared by the Industry and Market Consultant are reliable. The Company's Board of Directors affirm, according to their knowledge and belief, that there is no material deficiency in such data and information that might affect the decision of investors to subscribe for the Offer Shares. However, neither the Company, nor the Selling Shareholders, Directors or Advisors, with the exception of the Industry and Market Consultant, have independently verified such information and data, and no guarantee can be provided as to its accuracy or completeness.

It should be noted that neither Euromonitor International Limited, nor any of its shareholders, directors or their relatives hold any shareholding or any interest of any kind in the Company. Neither they nor any of their relatives have a direct or indirect interest in the Company. The Industry and Market Consultant has provided and not withdrawn its written consent to include its name, logo and statements, as well as to the use of the information supplied by it to the Company in the manner and format set out in this Prospectus.

Financial Statements and Statistical Information

The audited consolidated financial statements for the years ended 31 December 2011G, 2012G, 2013G and 2014G and the notes thereto have been prepared and audited in compliance with accounting standards promulgated by the Saudi Organization for Certified Public Accountants ("**SOCPA**") and have been audited by PricewaterhouseCoopers (the "**Auditor**"). Such statements are contained in Section 18, "Auditor's Report", of this Prospectus. The Company publishes its financial statements in Saudi riyals.

This Prospectus also includes references to certain financial ratios such as gross profit margin and net profit margin (see Table A.10), where the figures used to calculate these ratios are prepared in accordance with the generally accepted accounting standards adopted in Saudi Arabia. The Company uses these ratios to evaluate performance. These ratios make part of the financial information included in this Prospectus and should be regarded as complementary to the financial statements. Investors should take into account that some of the components of the financial statements, primarily, gross profit margin, may vary, as calculated by the Company, from how such items are calculated and presented under the same terminology by other companies, including the Company's competitors. Therefore, investors must take into account these differences when comparing the financial statements of the Company with its competitors.

Where statistical information has been sourced for publication in this Prospectus, the Company believes that the information represents the latest information available from the relevant source.

Forecasts and Forward-looking Statements

Forecasts and estimates set forth in this Prospectus have been prepared on the basis of certain stated assumptions in compliance with best practice in the industry. Future operating conditions may differ from the assumptions used and consequently no representation or warranty is made with respect to the accuracy or completeness of any of these forecasts.

Certain statements in this Prospectus constitute "forward-looking-statements". Such statements can generally be identified by their use of forward looking words such as "plans", "estimates", "projects", "believes", "expects", "anticipates", "may", "will", "should", "must", "expected", "would be" or the negative or other variation of such terms or comparable terminology. These forward-looking statements reflect the current views of the Company with respect to future events, and are not a guarantee of future performance. There are many factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Some of the risks and factors that could have such an effect are described in more detail in other sections of this Prospectus (for more information, see Section 2, "Risk Factors"). Should any one or more of these risks materialize or any underlying assumptions or estimates prove to be inaccurate or incorrect, actual results of the Company may vary materially from those described in this Prospectus.

Subject to the requirements of the Listing Rules, the Company must submit a supplementary Prospectus if at any time after the Prospectus has been approved by the CMA and before the Shares are listed, the Company becomes aware that: (i) there has been a significant change in key issues contained in the Prospectus or any document required by the Listing Rules; or (ii) significant additional issues have arisen whose inclusion in the Prospectus would have been necessary. With the exception of these two cases, the Company does not intend to update or change any sector or market information or the forward-looking-statements included in this Prospectus, whether as a result of new information, future events or otherwise. As a result, the forward looking events and circumstances discussed in this Prospectus might not occur in the way the Company expects, or at all. Therefore, Individual and Institutional Investors should consider all forward looking statements in light of these explanations and should not place undue reliance on forward looking statements.

Terms and Definitions

For an explanation of certain terms and abbreviations included in this Prospectus, please see Section 1, "**Terms and Definitions**".

Corporate Directory

Members of the Board of Directors

Table A.1: Board of Directors

No.	Name	Title	Representative Entity	Nationality	Age	Capacity	Direct ownership*				Direct and indirect ownership		Membership Date***
							Percentage before Offer	No. of Shares held Pre-Offer	Percentage after Offer	No. of Shares held Post Offer	Pre Offer	Post–Offer	
1	Abdul Rahman Amin Hassan Jawa	Chairman	-	Saudi	62	Non-executive / Independent	0%	1,000**	0%	1,000	0%	0%	20/07/2014G
2	Khalid Mohammed Abdulaziz Al Hamidi	Head of Administration and Personnel Affairs / Director	Al Hamidi Contracting Est.	Saudi	58	Executive	0.5%	120,000	0.35%	84,000	11.22%	7.85%	20/07/2014G
3	Sameer Mohammed Abdulaziz Al Hamidi	Chief Executive Officer and Managing Director	Al Hamidi Contracting Est.	Saudi	55	Executive	0.5%	120,000	0.35%	84,000	11.21%	7.85%	20/07/2014G
4	Haytham Mohammed Abdulaziz Al Hamidi	Head of the Marketing and Sales Department/ Member	Al Hamidi Contracting Est.	Saudi	49	Executive	0.5%	120,000	0.35%	84,000	11.21%	7.85%	20/07/2014G
5	Samauel Abdullah Taha Bakhsh	Member	Abrar International Holding Co.	Saudi	45	Non-executive	0%	1,000**	0%	1,000	10.2%	7.14%	20/07/2014G
6	Bandar Khalid Ibrahim Al-Turki	Member	-	Saudi	44	Non-executive	0%	1,000**	0%	1,000	0%	0%	20/07/2014G
7	Diwan Sadiq Abdul Basir Fadl	Member	Abrar International Holding Co.	Canadian	63	Non-executive	0%	1,000**	0%	1,000	0%	0%	20/07/2014G
8	Ahmed Mohammed Salem Al Sirri	Member	-	Saudi	66	Non-executive / Independent	0%	1,000**	0%	1,000	0%	0%	20/07/2014G
9	Abdul Mohsen Ibrahim Abdulaziz Al Tawq	Member	-	Saudi	40	Non-executive / Independent	0%	1,000**	0%	1,000	0%	0%	20/07/2014G

Source: The Company

*According to the requirements of the Companies Regulations and the Company's By-Laws, every Board member must own shares of a nominal value totaling at least ten thousand Saudi riyals (SAR 10,000). These qualification shares have been deposited with SABB.

** These shares have been allocated to ensure the liability of the relevant member of the Board of Directors.

***Dates listed in this table are the dates of appointment to the current positions listed in the same table. The resumes of the members of the Board of Directors state the date all Board Members were appointed to the Board.

Company Address, Representatives and Board Secretary

Address	Company Representatives	Secretary of the Board of Directors
Building No. 8862, Hind bint Utbah Street off Olaya Street, Olaya, Riyadh PO Box 86387, Riyadh 11622 Kingdom of Saudi Arabia Tel.: +966 (11) 463 6677 Fax: +966 (11) 465 7933 Website: www.saco-ksa.com E-mail: investors@saco-ksa.com	Sameer Mohammed Abdulaziz Al Hamidi Chief Executive Officer and Managing Director Building No. 8862, Hind bint Utbah Street off Olaya Street, Olaya, Riyadh PO Box 86387, Riyadh 11622 Kingdom of Saudi Arabia Tel.: +966 (11) 463 6677 -228 Fax: +966 (11) 465 7933 Website: www.saco-ksa.com E-mail: ceo@saco-ksa.com Khalid Mohammed Abdulaziz Al Hamidi Head of Administration and Personnel Affairs / Member of the Board of Directors Building No. 8862, Hind bint Utbah Street off Olaya Street, Olaya, Riyadh PO Box 86387, Riyadh 11622 Kingdom of Saudi Arabia Tel.: +966 (11) 463 6677 -227 Fax: +966 (11) 465 7933 Website: www.saco-ksa.com E-mail: cao@saco-ksa.com	Mustafa Faisal Mustafa Al Homsi Legal Consultant Building No. 8862, Hind bint Utbah Street off Olaya Street, Olaya, Riyadh PO Box 86387, Riyadh 11622 Kingdom of Saudi Arabia Tel.: +966 (11) 463 6677 -293 Fax: +966 (11) 465 7933 Website: www.saco-ksa.com E-mail: investors@saco-ksa.com

Stock Exchange
Saudi Stock Exchange (Tadawul) NCCI Towers 700 King Fahd Road PO Box 60612, Riyadh 11555 Kingdom of Saudi Arabia Tel.: +966 (11) 218 9999 Fax: +966 (11) 218 1220 Website: www.tadawul.com.sa E-Mail: info@tadawul.com.sa

Advisors
Financial Advisor, Lead Manager and Underwriter
HSBC Saudi Arabia Limited Olaya Road PO Box 9084 Riyadh 11413, Saudi Arabia Tel.: +966 (11) 299 2313 Fax: +966 (11) 299 2424 Website: www.hsbcsaudi.com E-Mail: saudiarabia@hsbc.com

Legal Advisor to the Offering	
	Legal Advisors AbdulAziz I. Al-Ajlan and Partners in association with Baker & McKenzie Limited Al Ahsa Street, Olayan Building, Floor 3 PO Box 4288 Riyadh 11491 Kingdom of Saudi Arabia Tel.: +966 (11) 2915561 Fax: +966 (11) 2915571 Website: www.bakermckenzie.com E-Mail: legaladvisors@bakermckenzie.com
Financial Due Diligence Advisor	
	Ernst & Young Al Faisaliah Tower, Floor 6 King Fahd Road, Olaya PO Box 2732, Riyadh 11461 Kingdom of Saudi Arabia Tel.: +966 (11) 2734740 Fax: +966 (11) 2734730 Website: www.ey.com E-Mail: riyadh@sa.ey.com
Auditors	
	PricewaterhouseCoopers Kingdom Tower Floor 21 King Fahd Road, Olaya PO Box 13933, Riyadh 11414 Kingdom of Saudi Arabia Tel.: +966 (11) 465 4240 Fax: +966 (11) 465 1663 Website: www.pwc.com/middle-east E-Mail: Khalid.mahdhar@sa.pwc.com
Industry and Market Consultant	
	Euromonitor International Limited Building F - Suite 606-607 Dubai Silicon Oasis P. O. Box 341155 Dubai, United Arab Emirates Tel.: +971 (4) 372 4363 Fax: +971 (4) 372 4370 Website: www.euromonitor.com E-Mail: Info-MENA@euromonitor.com

Note:

The above Advisors have given and not withdrawn their written consent to the publication of their names, addresses and logos in the Prospectus and the publication of their statements in the Prospectus, and they do not themselves, or any of their employees, relatives or affiliates, have any shareholding or interest of any kind in the Company as of the date of this Prospectus.

Receiving Agents

SABB ساب	The Saudi British Bank King Abdullah Road PO Box 2907, Riyadh 11461 Kingdom of Saudi Arabia Tel.: +966 (11) 2764005 Fax: +966 (11) 2763436 Website: www.sabb.com E-Mail: sabb@sabb.com
البنك السعودي الفرنسي Banque Saudi Fransi	Banque Saudi Fransi Ma’ather Road PO Box: 56006, Riyadh 11554 Kingdom of Saudi Arabia Tel.: +966 (11) 4042222 Fax: +966 (11) 4042311 Website: www.alfransi.com.sa E-Mail: communications@alfransi.com.sa
Al Rajhi Bank مصرف الراجحي	Al-Rajhi Bank Olaya Road PO Box: 28, Riyadh 11411 Kingdom of Saudi Arabia Tel.: +966 (11) 4629922 Fax: +966 (11) 4624311 Website: www.alrajhibank.com.sa E-Mail: contactcenter1@alrajhibank.com.sa
NCB الأهلي	National Commercial Bank Ma’ather Road PO Box 22216, Riyadh 11495 Kingdom of Saudi Arabia Tel.: +966 (11) 4787877 Fax: +966 (11) 4730417 Website: www.alahli.com E-Mail: contactus@alahli.com
بنك الرياض riyad bank	Riyad Bank King Abdul Aziz Road PO Box 22622, Riyadh11416 Kingdom of Saudi Arabia Tel.: +966 (11) 4013030 Fax: +966 (11) 4042618 Website: www.riyadbank.com E-Mail: customercare@riyadbank.com
samba سامبا	SAMBA Financial Group King Abdul Aziz Road PO Box 833, Riyadh11421 Kingdom of Saudi Arabia Tel.: +966 (11) 4774770 Fax: +966 (11) 4799402 Website: www.samba.com.sa E-mail: customercare@samba.com.sa

Main Banks of the Company	
SABB ساب	The Saudi British Bank King Abdullah Road PO Box 2907, Riyadh 11461 Kingdom of Saudi Arabia Tel.: +966 (11) 2764005 Fax: +966 (11) 2763436 Website: www.sabb.com E-Mail: sabb@sabb.com
البنك السعودي للاستثمار The Saudi Investment Bank	The Saudi Investment Bank Ma'ather Road PO Box 3533, Riyadh 11481 Kingdom of Saudi Arabia Tel.: +966 (11) 4786000 Fax: +966 (11) 4776781 Website: www.saib.com.sa E-Mail: info@saib.com.sa
البنك السعودي الفرنسي Banque Saudi Fransi	Banque Saudi Fransi Ma'ather Road PO Box: 56006, Riyadh 11554 Kingdom of Saudi Arabia Tel.: +966 (11) 4042222 Fax: +966 (11) 4042311 Website: www.alfransi.com.sa E-Mail: communications@alfransi.com.sa
العربي anb	Arab National Bank King Faisal Street PO Box 56921, Riyadh 11564 Kingdom of Saudi Arabia Tel.: +966 (11) 4029000 Fax: +966 (11) 4027747 Website: www.anb.com.sa E-Mail: info@anb.com.sa

Summary of the Offering

The Company	Saudi Company for Hardware (SACO) is a Saudi joint stock company pursuant to H.E Minister of Commerce and Industry Resolution No. 178/Q dated 26/05/1432H (corresponding to 30/04/2011G) under Commercial Registration No. 1010056595 dated 26/02/1405H (corresponding to 19/11/1984G).
Activities of the Company	The Company was formed to pursue the following objectives: import and export, wholesale and retail sale of products, including home, office and sporting equipment and supplies, tools and hardware, lubricants, home cleaning and polishing products, automotive care accessories, furnishings, waste water treatment systems, finishing works and products relating to the restoration and decoration of buildings.
Selling Shareholders	The Shareholders whose names and ownership in the Company is provided in the table below.

Selling Shareholders	Pre-Offer			Post-Offer		
	No. of Shares	Percentage	Share Capital	No. of Shares	Percentage	Share Capital
Al Hamidi Contracting Est.	11,400,000	47.5%	114,000,000	7,980,000	33.25%	79,800,000
Abrar International Holding Co.	6,120,000	25.5%	61,200,000	4,284,000	17.85%	42,840,000
Abdul Rahman Hassan Abbas Sharbatly	6,120,000	25.5%	61,200,000	4,284,000	17.85%	42,840,000
Khalid Mohammed Abdulaziz Al Hamidi	120,000	0.5%	1,200,000	84,000	0.35%	840,000
Sameer Mohammed Abdulaziz Al Hamidi	120,000	0.5%	1,200,000	84,000	0.35%	840,000
Haytham Mohammed Abdulaziz Al Hamidi	120,000	0.5%	1,200,000	84,000	0.35%	840,000
Public	-	-	-	7,200,000	30%	72,000,000
Total	**24,000,000**	**100%**	**240,000,000**	**24,000,000**	**100%**	**240,000,000**

Source: The Company

Company's Share Capital	SAR 240,000,000
Substantial Shareholders	Al Hamidi Contracting Establishment Company, Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly. Table (A-3) shows the number and percentage of Shares held before and after the Offer.
Total number of Company Shares	24,000,000 ordinary paid up shares
Nominal value per Share	SAR 10 per share
The Offering	An Offering of 7,200,000 ordinary shares with a paid up nominal value of ten Saudi riyals (SAR 10) each at a price of SAR 70 per share, representing 30% of the Company's Share Capital.
Number of Offer Shares	7,200,000 fully paid ordinary shares
Percentage of Offer Shares	The Offer Shares represent 30% of the issued share capital of the Company
Offer Price	SAR 70 per share
Total value of Offer Shares	SAR 504,000,000

Use of Proceeds	The Offering Proceeds are expected to be SAR 405,000,000. After all costs and expenses related to the Offering have been deducted, amounting to SAR 19,114,916, the Net Proceeds will be paid to the Selling Shareholders on a pro rata basis. The Company will not receive any part of the Offering proceeds (please refer to Section 8, "Use of Proceeds", for further information)
Number of Offer Shares underwritten	7,200,000 ordinary shares
Total value underwritten	SAR 504,000,000
Targeted Investors	Tranche (A) Institutional Investors: includes a number of institutions and companies, including mutual funds (see Section 1, "Terms and Definitions", of this Prospectus for further information). Tranche (B) Individual Investors: This tranche includes Saudi natural persons including a Saudi female divorcee or widow from a marriage to a non-Saudi who can subscribe for Offer Shares for her own benefit, in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature has been proved to have occurred, then the regulations shall be enforced against the concerned applicant.
Total number of Offer Shares for each type of targeted investor:	
Number of Shares offered to Institutional Investors	7,200,000 ordinary Shares, representing 100% of the total Offer Shares. If Individual Investors subscribe to the Offer Shares, the Lead Manager has the right, after obtaining CMA approval, to reduce the number of shares allocated to institutional investors to 4,320,000 Shares, representing 60% of the total Offer Shares. 90% of the shares of this tranche will be allocated to mutual funds, although such percentage is subject to change in the event that other institutional investors excluding mutual funds do not subscribe for the full remaining percentage (10%) or in the event that the mutual funds do not fully subscribe to the percentage allocated to them.
Number of Shares offered to Individual Investors	A maximum of 2,880,000 Shares, representing 40% of the Offer Shares
Subscription method for each category of targeted investors:	
Subscription method for Institutional Investors	Institutional Investors as defined in Section 1, "Terms and Definitions", may apply for subscription. The Institutional Book Runner will provide subscription application forms to Institutional Investors during the book building process.
Subscription method for Individual Investors	Subscription application forms will be available at the Receiving Agent's branches during the Offering Period. Subscription application forms must be completed in accordance with the instructions described in Section 15, "Subscription Terms and Instructions". Individual Investors who have participated in a recent offering may also subscribe through the internet, telephone banking or ATM at any branch of the Receiving Agents which offers some or all of these services to their customers provided that: (1) the Subscriber has a bank account at one of the Receiving Agents that offer such services, and (2) no changes have been made to the investor's personal information since they participated in the recent offering.
Minimum number of Offer Shares to be applied for by each category of targeted investors:	
Minimum number of Offer Shares for Institutional Investors	100,000 Shares
Minimum number of Offer Shares for Individual Investors	10 Shares
Value of the minimum number of Offer Shares to be applied for by each category of targeted investors:	
Value of minimum number of Offer Shares for Institutional Investors	SAR 7,000,000

Value of minimum number of Offer Shares for Individual Investors	SAR 700
Maximum number of Offer Shares to be applied for by each category of targeted investors:	
Maximum number of Offer Shares for Institutional Investors	1,199,999 Shares
Maximum number of Offer Shares for Individual Investors	250,000 Shares
Value of maximum number of Offer Shares to be applied for by each category of targeted investors:	
Value of maximum number of Offer Shares for Institutional Investors	SAR 83,999,930
Value of maximum number of Offer Shares for Individual Investors	SAR 17,500,000
Allocation and refund method for each category of targeted investors:	
Allocation of Offer Shares to Institutional Investors	Offer Shares will be allocated to the Institutional Investors by the Bookrunner once the subscription process of the Individual Investors is completed.
Allocation of Offer Shares to Individual Investors	Notification of allocations and refunds will be made no later than 16/07/1436H (corresponding to 05/05/2015G). Each investor will be allocated a minimum of 10 Offer Shares. The remaining Offer Shares, if any, will be allocated pro rata to the total number of Offer Shares applied for by each Subscriber. In the event that the number of Individual Investors exceeds 288,000, the Company will not guarantee the minimum allocation per Individual Investor, and the Offer Shares will be allocated equally among all Individual Investors. If the number of Individual Investors exceeds 2,880,000, the Offer Shares will be allocated to Individual Investors as proposed by the Company and the Financial Advisor.
Refund of excess Subscription monies	Excess subscription monies, if any, will be refunded to the Subscribers without any charge or withholding. Notification of the final allocation and refund of subscription monies, if any, will be made no later than 16/07/1436H (corresponding to 05/05/2015G). (See Section 15, “Subscription Terms and Instructions”, for more information).
Offer Period	The Offering will commence on Wednesday 03/07/1436H (corresponding to 22/04/2015G) and will remain open for a period of 7 days up to and including the closing day on Tuesday 09/07/1436H (corresponding to 28/04/2015G).
Dividend distribution	The Offer Shares will be entitled to receive any dividends declared by the Company after the Offering Period and for subsequent fiscal years. (See section 7 “Dividend Distribution Policy”).
Voting rights	The Company has one class of Shares (ordinary shares), which does not carry any preferential voting rights. Each Share entitles the holder to one vote and each Shareholder holding at least 20 Shares has the right to attend and vote at the General Assembly Meeting. A shareholder may authorize another shareholder that is not a Member of the Board of Directors to attend the General Assembly on its behalf. (For further details about shares and voting rights, see section 11.4.6, “Voting Rights”).
Lock-in Period/ Share restrictions	The Selling Shareholders whose ownership is stated in the Prospectus, are restricted from disposing of their shares for a period of 9 months from the date on which trading in the Offer Shares commences on the Exchange (“Lock-in Period”). After the restriction period has elapsed, the Selling Shareholders may only dispose of their Shares after obtaining CMA approval.

Shares previously listed by the Company	Prior to the Offering, there has been no public market for the Shares in Saudi Arabia or elsewhere. An application has been made to the CMA for admission and all relevant approvals relating to the Offer and pertaining to this Prospectus, all other supporting documents requested by the CMA, and all relevant regulatory approvals required to conduct the Offering have been granted. Trading in the Offer Shares is expected to commence on the Exchange soon after the final allocation of the Offer Shares and upon completion of all relevant procedures. (For more information, please see the "Key Dates for Subscribers" section of this Prospectus).
Risk Factors	There are certain risks related to investing in the Offering. Such risks can be classified as follows: (i) risks relating to the Company's business; (ii) risks relating to the market; and (iii) risks relating to the Offer Shares. These risks are described in Section 2, "Risk Factors", and should be considered carefully prior to making a decision to invest in the Offer Shares.
Expenses	The Selling Shareholders will be responsible for all costs and expenses associated with the Offer, which totalled SAR 19,114,916. Such expenses include the fees of each of the Financial Advisor, the Underwriter, the Company's Legal Advisor, Financial Diligence Advisor and Auditors, in addition to Receiving Agent expenses, marketing expenses, printing and distribution expenses and other relevant expenses.
Underwriter	HSBC Saudi Arabia Limited Olaya Road PO Box 9084 Riyadh 11413, Saudi Arabia Tel.: +966 (11) 299 2313 Fax: +966 (11) 299 2424 Website: www.hsbcsaudi.com E-Mail: saudiarabia@hsbc.com

The "Important Notice" on page (ii) and Section 2, "Risk Factors", of this Prospectus should be considered carefully prior to making a decision to invest in the Offer Shares.

Key Dates for Subscribers

Table A.2: Anticipated Offer Timetable

Anticipated Offer Timetable	
Event	**Date (s)**
Offer Period	The Offering will commence on Wednesday 03/07/1436H (corresponding to 22/04/2015G) and will remain open for a period of 7 days up to and including the closing day on Tuesday 09/07/1436H (corresponding to 28/04/2015G).
Last date for submission of application forms for Institutional Investors	Tuesday 25/06/1436H (corresponding to 14/04/2015G)
Last date for payment of subscription monies for Institutional Investors	Sunday 07/07/1436H (corresponding to 26/04/2015G)
Last date for submission of application forms and payment of subscription monies for Individual Investors	Tuesday 09/07/1436H (corresponding to 28/04/2015G)
Notification of final allocation of Offer Shares	Tuesday 16/07/1436H (corresponding to 05/05/2015G)
Refund of any Subscription funds (in the event of over-subscription)	Tuesday 16/07/1436H (corresponding to 05/05/2015G)
Expected date trading starts on the Saudi Stock Exchange	Trading of the Offer Shares on the Exchange is expected to commence after all relevant legal requirements have been fulfilled. Trading will be announced in local newspapers and on the Tadawul website (www.tadawul.com.sa).

Note: The above timetable and dates therein are approximate. Actual dates will be announced in the local daily newspapers published in Arabic in Saudi Arabia and on the Tadawul website (www.tadawul.com.sa).

How to Apply for Subscription

Subscription in the Offer Shares is restricted to the following groups of investors:

Tranche (A) - Institutional Investors: a number of institutions and companies, including mutual funds (see section 1 "Definitions and Abbreviations"). These investors may apply in accordance with the conditions set forth in this Prospectus. Institutional Investors can obtain an application form from the Institutional Bookrunner during the book building period.

Tranche (B) - Individual Investors: Saudi natural persons including a Saudi female divorcee or widow from a marriage to a non-Saudi who can subscribe in the names of her minor children. Subscription by a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature has been proved to have occurred, then the regulations shall be enforced against the concerned applicant.

Individual Investors may obtain subscription application forms during the Offer Period from branches of the Lead Manager and Receiving Agents or through their websites that provide this service. The value of the Shares subscribed to must be paid in full by the main Subscriber and members of his family at one of the Receiving Agent branches by debiting the main Subscriber's current account held with the Receiving Agent. No debits may be made from third-party accounts to pay the Subscription value. Changes to or withdrawal of the subscription application shall not be permitted once the subscription application has been submitted.

Individual Investors who have participated in a recent offering may subscribe through the internet, or by telephone banking or ATM at any of the Receiving Agent branches that offer such services to their customers, provided that:

1. the Subscriber has an account with a Receiving Agent that offers such services; and
2. no changes have been made to the personal information of the Individual Investor since the last offering in which he participated.

Subscription Application Forms must be completed in accordance with the instructions mentioned under the "Subscription Terms and Instructions" section of this Prospectus. Each applicant must approve all relevant items and clauses of the Subscription Application Form. The Company reserves the right to decline any subscription application, in whole or in part, if any of the subscription terms and conditions are not met. Amendments to and withdrawal of the subscription application shall not be permitted once the subscription application has been received by the Lead Manager or Receiving Agent. The subscription application shall, upon submission, represent a binding agreement between the applicant and the Selling Shareholders (for more information, please see Section 15, "Subscription Terms and Instructions", of this Prospectus).

Summary of Key Information

This summary of key information aims to give an overview of the information contained in this Prospectus. As it is a summary, it does not contain all of the information that may be important to interested investors. Accordingly, this summary should be read as an introduction to this Prospectus. Recipients of this Prospectus should read the Prospectus in its entirety, as any decision by prospective investors to invest in the Offer Shares should be based on a study of this Prospectus as a whole.

The Company

Saudi Company for Hardware (SACO) is a Saudi joint stock company pursuant to H.E the Minister of Commerce and Industry Resolution No. 178/Q dated 26/05/1432H (corresponding to 30/04/2011G) and Commercial Registration No. 1010056595 dated 26/02/1405H (corresponding to 19/11/1984G) with its registered address at Al Takhassusi Road in Riyadh and its head office at Hind bint Utbah Street off Olayah Street in Riyadh.

SACO was incorporated on 26/02/1405H (corresponding to 19/11/1984G) in Riyadh as a limited liability company with a share capital of ten million Saudi riyals (SAR 10,000,000). The founding partners were Al Hamidi Trading Establishment (50%), Abdullah Taha Bakhsh (25%) and Abdul Rahman Hassan Abbas Sharbatly (25%).

On 12/06/1411H (corresponding to 30/12/1990G), the Company's share capital was raised from ten million Saudi riyals (SAR 10,000,000) to sixteen million Saudi riyals (SAR 16,000,000) divided into sixteen thousand (16,000) shares with a nominal value of one thousand Saudi riyals (SAR 1,000) per share, by a capitalization of loans provided by the partners to the Company.

On 15/08/1418H (corresponding to 15/12/1997G) Al Hamidi Trading Establishment transferred all of its shares in the Company to Al Hamidi Contracting Establishment Company.

In 2007G, after the death of Abdullah Taha Baksh and transfer of his shares to his heirs, all heirs transferred their entire shares in the Company to Abrar International Holding Company (owned by the same heirs).

In 2008G, the partners in SACO agreed to lend the Company forty-three million, three hundred thirty-three thousand, three hundred thirty-four Saudi riyals (SAR 43,333,334) to finance the Company's business and its expansion into the retail market. In order to finance its portion of the loan, Al Hamidi Contracting Establishment Company sold 12.5% of the Company's shares, half of them to Abrar International Holding Company and the other half to Abdul Rahman Hassan Abbas Sharbatly. Al Hamidi Contracting Establishment Company's interest became 37.5% of the Company's share capital, and the interest of each of Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly became 31.25% of the Company's share capital.

In 2008G, the partners in SACO agreed to grant Al Hamidi Contracting Establishment Company a portion of the Company's share capital calculated on the basis of realized net profit for the fiscal year ending 31/12/2009G. Such portion was to be granted provided that the realized net profit was not less than SAR 20.19 million. On 10/03/1431H (corresponding to 24/02/2010G), after the Company achieved these goals, the portion of the share capital was set at 2.5% of the Company's share capital, representing a total of four hundred (400) shares. Both Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly agreed to grant Al Hamidi Contracting Establishment Company two hundred (200) shares each representing 1.25% of the Company's share capital. Al Hamidi Contracting Establishment Company's interest became 40% of the Company's share capital, and the interest of each of Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly became 30% of the Company's share capital.

Pursuant to the partners' resolution dated 23/03/1432H (corresponding to 24/02/2011G), the partners decided to convert the Company from a limited liability company into a closed joint stock company. Two hundred and forty (240) shares owned by Al Hamidi Contracting Establishment Company were transferred to Khalid Mohammed Abdulaziz Al Hamidi, Sameer Mohammed Abdulaziz Al Hamidi and Haytham Mohammed Abdulaziz Al Hamidi, with each owning eighty (80) shares representing 0.5% of the Company's share capital. Al Hamidi Contracting Establishment Company's total shares thus became 38.5% of the Company's share capital, with Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly each holding 30%.

The Company was converted into a closed joint stock company pursuant to H.E Minister of Commerce and Industry Resolution No. 178/Q dated 26/05/1432H (corresponding to 30/04/2011G). The Company's share capital amounted to sixteen million Saudi riyals (SAR 16,000,000) and the interests were converted to shares with a nominal value of ten Saudi riyals (SAR 10) per share.

On 15/06/1432H (corresponding to 18/05/2011G), the Company's shareholders entered into an agreement with Al Hamidi Contracting Establishment Company establishing the shareholders acceptance of Al Hamidi Contracting Establishment Company receiving 15% of the Company's net profit in consideration for managing the Company, noting that Al Hamidi Trading Establishment, which was succeeded by Al Hamidi Contracting Establishment Company, had received such consideration since 29/09/1986G. However, this agreement was terminated by a termination and settlement agreement dated 21/03/1435H (corresponding to 22/01/2014G), pursuant to which it was agreed that Al Hamidi Contracting Establishment Company would receive 9% of the Company's shares. Seventy-two thousand (72,000) shares (representing 4.5% of the total share capital) from Abdul Rahman Hassan Abbas Sharbatly and Abrar International Holding Company's interests were transferred to Al Hamidi Contracting Establishment Company on 14/05/1435H (corresponding to 16/03/2014G). The interests of Al Hamidi Contracting Establishment Company, Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly became 47.5%, 25.5% and 25.5% of the Company's share capital respectively. The interests of each of Khalid Mohammed Abdulaziz Al Hamidi, Sameer Mohammed Abdulaziz Al Hamidi and Haytham Mohammed Abdulaziz Al Hamidi became 0.5% of the Company's share capital.

On 27/07/1435H (corresponding to 26/05/2014G), the Company's share capital was increased from sixteen million Saudi riyals (SAR 16,000,000) to two hundred forty million Saudi riyals (SAR 240,000,000) divided into twenty-four million (24,000,000) shares with a nominal value of ten Saudi riyals (SAR 10) per share, through capitalization of two hundred twenty-four million Saudi riyals (SAR 224,000,000) from the retained earnings account.

SACO is considered as one of the largest companies providing home improvement products in Saudi Arabia. SACO currently operates 23 stores in twelve cities throughout the Kingdom, including three SACO World superstores. These stores have an area varying from 2,000 to 24,500 square meters and offer more than 45,000 different products.

The main product categories offered by SACO include:

- Housewares
- Electrical appliances
- Home appliances
- Lawn and Garden
- Outdoor furniture
- Lighting
- Hardware
- Paint supplies
- Bed and bath
- Hand and power tools
- Building materials
- Indoor furniture
- Sporting gear and accessories
- Automotive
- Plumbing
- Storage and organization
- Children's toys

The Company purchases and imports the tools and supplies referred to above from a wide range of international and local suppliers including leading international companies in the field of manufacturing equipment, tools and home improvement products. One of the key suppliers is Ace International, with an estimated turnover of billions of dollars (for more information, please see Section 4.5 "About the Company"). The relationship between the Company and Ace Hardware was established in 1408H (corresponding to 1988G) when SACO entered into an exclusive distribution agreement with Ace Hardware in Saudi Arabia. In 1432H (corresponding to 2010G) Ace Hardware assigned the distribution agreement entered into with SACO to ACE International (a subsidiary of ACE Hardware) according to an assignment agreement. This relationship has gradually developed over the last 26 years. SACO is one of the largest distributors of Ace International products around the world. In light of this strong relationship and the growth of SACO's business, Ace International has recently extended its exclusive agreement with the Company for the Saudi market until 31 December 2024G. This term renews automatically for several five-year periods unless either party sends to the other party a notice of non-renewal during a period not exceeding six months prior to the end of the agreement.

As at 31 December 2014G, the Company had 2,035 employees at its different branches throughout the Kingdom, 694 of whom were Saudi nationals. The Company is classified under the "high green" Nitaqat category, which demonstrates that the Company has achieved a high level of Saudization equal to 34.1% of the total manpower as at 31/12/2014G.

The following table shows the Company's shareholders before and after the Offer:

Table A.3: Company shareholders pre- and post-Offering

Shareholder	Pre-Offering			Post-Offering		
	No. of Shares*	Percentage	Share Capital (SAR)	No. of Shares	Percentage	Share Capital (SAR)
Al Hamidi Contracting Establishment Company	11,400,000	47.5%	114,000,000	7,980,000	33.25%	79,800,000
Abrar International Holding Company	6,120,000	25.5%	61,200,000	4,284,000	17.85%	42,840,000
Abdul Rahman Hassan Abbas Sharbatly	6,120,000	25.5%	61,200,000	4,284,000	17.85%	42,840,000
Khalid Mohammed Abdulaziz Al Hamidi	120,000	0.5%	1,200,000	84,000	0.35%	840,000
Sameer Mohammed Abdulaziz Al Hamidi	120,000	0.5%	1,200,000	84,000	0.35%	840,000
Haytham Mohammed Abdulaziz Al Hamidi	120,000	0.5%	1,200,000	84,000	0.35%	840,000
Public	-	-	-	7,200,000	30%	72,000,000
Total	**24,000,000**	**100%**	**240,000,000**	**24,000,000**	**100%**	**240,000,000**

Source: The Company

*These shares include the qualification shares allocated for membership on the Board of Directors set out in Table A.1, "Board of Directors".

The Company's vision, mission and strategy

Vision

The Company aims to become the 'first stop' in the retail sector in Saudi Arabia, by securing all customers' needs for hardware, tools, products and home improvement solutions at competitive prices and in a suitable shopping environment.

Mission

The Company seeks to:

- Understand customers' needs and provide them with suitable products and home solutions;
- Furnish a suitable shopping environment for customers by offering a wide variety of products in one location at competitive prices;
- Enhance customer confidence by providing appropriate services; and
- For SACO stores to become the regional leader in the field of home improvement products by expanding in the Gulf and other Arab countries.

Company strategy

The Company's strategy aims to:

- Expand its network of stores by opening new showrooms in new cities and increasing the number of showrooms in cities where the Company currently has stores. The Company's strategy for the foreseeable future involves opening new stores in Hail, Jizan and Taif, in addition to opening two new stores in Riyadh;
- Develop current showrooms by increasing their surface areas, and improving their interior and exterior design, in order to enhance the customers' shopping experience;
- Expand into a number of Gulf Cooperation Council (GCC) countries in the future;
- Continuously update and develop the product categories offered in line with customer requirements;
- Develop after-sale services, as well as maintenance services, to increase the Company's business volume and revenues;
- Develop and train the Company's workforce through Company training programs;
- Continued Saudization of employees in conformity with the Company's policies and in line with the Saudization requirements set by the Ministry of Labor; and
- Prepare for the entry of new competitors into the market by providing cost-effective offers to customers and maintaining and expanding the Company's customer base.

Competitive Advantages and Strengths

Purchasing power resulting from the Company's business volume

The total commercial area of SACO's stores is 126,131 square meters throughout the Kingdom and these stores accommodate approximately 12 million visitors annually according to Company estimates. The Company's business volume enables it to take advantage of discounts for the purchase of large quantities of products that are offered by local and international suppliers and manufacturers such as Ace International, Ahmed Abdulwahed Company for Appliances and Tools[1] and Juffali Technical Equipment Company.

Brand

Having worked hard to serve its customers in the tools and home improvement products sector for three decades, the Company has built a reputable brand in the Kingdom's tools, equipment, home improvement products and housewares sector. In order to sustain the value and evolution of this trademark, SACO seeks to meet its customers' needs and constantly adapt to their requirements in order to offer a wide range of products (numbered at more than 45,000 products) at competitive prices within a suitable shopping environment.

1 In January 2015G Al Tafawaq Establishment for Electronic Devices changed its name to Ahmed Abdulwahed Company for Appliances and Tools.

Management team experience

SACO's senior management team includes individuals who have been with the Company since its incorporation. The team members have extensive experience in the Company's field of business and have the necessary skills to contribute to the growth of its business. The Company always seeks to attract people with the relevant skills and experience to continue the development and growth of the Company's business.

The knowledge and experience of the senior management is reflected in the Company's strong financial performance over the past years. The Executive Director/Managing Director and a number of the Members of the Board of Directors are members on a number of boards of directors of companies listed on the Saudi Exchange (for more information, please see Section 5.2.3, "Experience and Qualifications of the Members of the Board of Directors").

Shopping Environment

SACO trains its employees at all levels in customer service and product knowledge to enable them to meet customers' requirements and needs.

SACO's stores were designed to provide a shopping environment suitable for customers, by offering wide aisles and displays that make the customer's shopping experience easier. The Company focuses on the interior design of its stores, as the stores' spacious area and clear product labeling method help customers find various options that satisfy their needs. All of these factors contribute to providing a shopping environment suitable for SACO's customers.

Relationships with major suppliers and international brands

Since its establishment, the Company has sought to establish relationships with leading suppliers at the international and local levels, which enabled the Company to offer a wide range of products to its customers. Due to such relationships and through the adoption of a policy to continuously update and develop the products offered in its stores, SACO has been able to offer new products before other competitors in the Saudi market.

Exclusive partnership with Ace International

On 5 April 1988G, SACO entered into an exclusive distribution agreement for Saudi Arabia with Ace Hardware, an American Company operating in the wholesale sector with an estimated turnover of billions of dollars (for more information, please refer to Section 4.5.1 "Suppliers"). Ace Hardware assigned the distribution agreement entered into with SACO to Ace International pursuant to an assignment agreement dated 23/10/2010G. Ace International and SACO later signed an agreement dated 12/03/2014G to renew the exclusive rights granted to SACO for the Saudi market until 31/12/2024G. Ace International distributes large quantities of goods to a great number of retailers at the international level, including SACO, which takes advantage of the large discounts offered by Ace International for wholesale purchases; which represents a competitive advantage for the Company in the home improvement products market. This exclusive agreement is valid until 31 December 2024G, and renews automatically for several five-year periods unless one of the parties notifies the other that it does not wish to renew within a period of no more than six months prior to the expiration of the agreement.

The above-mentioned exclusive distribution agreement provides stability and a number of competitive advantages to the Company's business, which might in turn contribute to limiting the entry of new competitors into the home improvement products market in the Kingdom since these new competitors will need to enter into agreements with suppliers of Ace International's size in order to sell home products competing with the products offered by the Company.

Continuous product innovation and diversity

SACO purchases large quantities of products from around the world to meet the requirements of its customers, which enables it to maintain its position in the Saudi market. The Company offers new and diverse products in the Kingdom (around 45,000 products) at competitive prices. The various types of products offered by the Company mainly contribute to attracting a wide segment of customers, including local wholesalers and consumers. This product diversity assists in covering any decline in demand with respect to any of the Company's other products.

Comprehensive market coverage supported by integrated logistics and distribution systems

The Company is currently selling its products in all areas of the Kingdom through 23 stores located in 12 cities inside the Kingdom, in addition to three maintenance centers offering the support needed for these stores' sales (i.e., after-sale services) in the Western, Central and Eastern regions. The Company has also established three warehouses in strategic locations in Western and Central regions, with a total goods storing capacity of 62,963 square meters.

Due to the Company's need for an integrated system connecting all of its stores, maintenance centers and warehouses, and in light of its continuous efforts to support, enhance and accelerate its business strategy and growth plans, the Company started implementing a SAP enterprise resource planning (ERP) system in 2013G, in order to best manage its stock and purchases. Utilisation of this system began in November 2013G.

Commitment to Saudization

SACO adopts a policy of recruiting, training and promoting Saudi employees in all divisions. The Company was recently classified within the "high green" Nitaqat category, and the Company is continuing the Saudization process in conformity with the Company's policy and in line with the Saudization requirements set by the Ministry of Labor.

About the market study

Overview of the Saudi economy

Saudi Arabia recorded the highest GDP in the Middle East in 2013G, reaching SAR 2,794.8 million. This was mainly driven by the oil and gas industry which contributes more than half of the market's GDP. Decreased oil prices are expected to lead to a slowdown in GDP growth during 2013G-2018G. However, the Kingdom's anticipated ability to maintain its budget for the foreseeable future in order to encourage investments in infrastructure, construction and other sectors limits the effect of such slowdown on the economy in general and on local consumption in particular.

The Kingdom of Saudi Arabia has the largest and fastest growing population in the GCC. In 2013G, the number of households in the Kingdom reached 5.3 million, and this number is expected to increase at a CAGR of 2.4% between 2013G and 2018G[2]. Consumer spending is expected to maintain a growth rate in the coming period equal to its historical growth rates (2008G-2013G). The aforementioned factors are the main drivers of growth in the home improvement products and hardware sector, as this sector offers products that are necessary for any home.

Table A.4: GDP and GDP per capita (2008G-2018G)

Category	Unit	2008G (actual)	2013G (actual)	2018G (projected)	CAGR 2008G-2013G	CAGR 2013G-2018G
GDP	SAR million	1,949,237.8	2,794,771.9	3,271,484.4	7.5%	3.2%
GDP per capita	SAR	74,493.2	95,321.6	101,101.6	5.1%	1.2%

Sources: Euromonitor based on national statistics, UN, IMF and OECD

The Kingdom's strong economy enhances the growth of disposable income. In 2013G, the annual disposable income per capita was SAR 29,588.8. The annual disposable income per capita increased at a CAGR of 1.4% in 2013G-2018G.

Table A.5: Total annual disposable income and disposable income per capita (2008G-2018G)

Category	Unit	2008G (actual)	2013G (actual)	2018G (projected)	CAGR 2008G-2013G	CAGR 2013G-2018G
Annual disposable income	SAR million	555,801.4	867,524.5	1,025,379.1	9.3%	3.4%
Annual disposable income per capita	SAR	21,240.8	29,588.8	31,668.2	6.9%	1.4%

Sources: Euromonitor based on national statistics, UN, IMF and OECD

Population and consumption growth trends

Increasing number of households and consumer diversity

The population of Saudi Arabia was around 29.3 million people in 2013G and is expected to grow at a rate of 2% annually between 2013G and 2018G. The number of expatriates amounted to 32% of the total population in 2013G, creating diversified demand and different levels of pricing and quality for hardware and home improvement products based on consumer culture and taste. There were around 5.3 million households in Saudi Arabia in 2013G. The number of households is expected to grow more rapidly than the overall population due to the decreasing number of members per household, which fell by around 0.7% annually between 2008G and 2013G.

2 Source: Euromonitor, based on national statistics

Table A.6: Demographic and Macro-Economic indicators 2008G, 2013G, 2018G

	Unit	2008G (actual)	2013G (actual)	2018G (projected)	CAGR 2008G-2013G	CAGR 2013G-2018G
Total population	'000	26,166.6	29,319.4	32,358.4	2.3%	2%
Population (male)	'000	14,601.1	16,127.8	17,645.0	2%	1.8%
Population (female)	'000	11,565.6	13,191.6	14,713.4	2.7%	2.2%
Number of households	'000	4,615.1	5,304.8	5,984.6	2.8%	2.4%

Source: Euromonitor based on national statistics, UN, IMF and OECD

Villas: Most important type of residential units in Saudi Arabia

Around 60% of the total residential units in Saudi Arabia in 2013G were villas according to the Central Department of Statistics and Information. This high percentage of villas drives demand for lawn and garden equipment as well as outdoor furniture, due to the moderate temperatures in winter.

Overview of the Saudi retail market

Overview

The retail industry in Saudi Arabia is witnessing continuous growth, driven by the growing economy and rising disposable income (estimated at a CAGR of 3.4% during the period between 2013G and 2018G), in addition to modernization and exposure to a wide range of products and brands for all segments of society. Store-based retailing is one of the most important shopping avenues in Saudi Arabia (compared to online shopping) mainly because Saudi consumers prefer to physically select products before buying them. Shopping is also considered a form of entertainment.

Non-grocery retailers are the largest contributors to the retail industry in the Kingdom of Saudi Arabia. The electronics and appliances industry has the highest sales among non-grocery retail industries, mainly driven by the high price per unit for home appliances compared to other categories. Moreover, the construction of new residential units to address the housing shortage on one hand and the increased demand for remodeling and renovation on the other hand have a positive impact on this sector.

Summary of Financial Information

The financial information below should be read in conjunction with the audited financial statements for the years 2011G, 2012G, 2013G and 2014G, including the notes thereto, which are included in Section 6, "Management Discussion and Analysis of the Company's Financial Position".

Table A.7: Summary of the income statement for the years ended 31 December 2011G, 2012G, 2013G and 2014G

(SAR '000)	2011G Audited	2012G Audited	2013G Audited	2014G Audited
Income Statement				
Sales and other revenues	672,489	831,084	961,278	1,084,846
Cost of sales and operations	521,937	642,327	742,534	833,353
Gross profit	150,552	188,757	218,744	251,494
Selling and general expenses and marketing and administrative expenses	90,008	104,333	112,251	131,372
Income from operations	60,544	84,424	106,493	120,122
Net income	55,193	76,815	102,742	110,014
Earnings per share from main operations*	2,52	3,52	4,44	5,01
Earnings per share from net income*	2,30	3,20	4,28	4,59

Source: Company Management

*Earnings per share from main operations and net income were calculated by dividing the income from main operations and net income by the average number of existing shares, which was 24,000,000 shares as at 31 December 2014G. Earnings per share from main operations and net income for the periods ending 31 December 2011G, 2012G and 2013G were recalculated retroactively based on the number of new shares (24,000,000 shares).

Table A.8: Summary of financial position for the periods ending 31 December 2011G, 2012G, 2013G and 2014G

(SAR '000)	2011G Audited	2012G Audited	2013G Audited	2014G Audited
Financial Position				
Current assets	336,980	376,470	498,150	621,035
Non-current assets	111,649	116,885	124,748	171,604
Total assets	448,629	493,355	622,898	792,639
Current liabilities	194,048	205,175	297,522	364,624
Non-current liabilities	85,826	72,609	57,063	49,689
Total liabilities	279,874	277,784	354,585	414,313
Share capital	16,000	16,000	16,000	240,000
Retained earnings and statuary reserves	152,756	199,570	252,313	138,326
Total shareholders' equity	**168,756**	**215,570**	**268,313**	**378,326**

Source: Company Management

Table A.9: Summary of cash flows for the periods ending 31 December 2011G, 2012G, 2013G and 2014G

(SAR '000)	2011G Audited	2012G Audited	2013G Audited	2014G Audited
Cash flows				
Operating Activities	48,561	71,117	51,583	49,842
Financing Activities	1,588	(51,013)	(20,237)	20,203
Investment Activities	(42,449)	(21,788)	(30,439)	(78,816)
Net change in cash flows	7,700	(1,684)	907	(8,770)

Source: Company Management

Table A.10: Summary of key performance indicators for the periods ended 31 December 2011G, 2012G, 2013G and 2014G

(SAR '000)	2011G Audited	2012G Audited	2013G Audited	2014G Audited
Key Performance Indicators				
Total area of branches (m2)	102,009	106,603	106,603	121,889
Sales per m2*	7,223	7,739	8,916	9,605
Net income per m2	613	735	974	992
Days inventory outstanding	193	190	196	233
Collection days (trade)***	7	4	5	4
Days purchase outstanding (trade)	55	49	43	57
Cash conversion cycle, number of days between purchase, storage and sale of products	145	145	158	181
Gross profit margin	22.4%	22.7%	22.8%	23.2%
Net income margin	8.2%	9.2%	10.7%	10.1%
Current assets/current liabilities	1.7	1.8	1.7	1.7
Total liabilities/total assets	62.4%	56.3%	56.9%	52.3%
Total liabilities/total equity	165.8%	128.9%	132.2%	109.5%
Return on equity	32.7%	35.6%	38.3%	29.1%
Return on assets	12.3%	15.6%	16.5%	13.9%
Revenue growth rate	40.4%	23.6%	15.7%	13.1%
Net income growth rate	75.6%	39.2%	33.8%	7.1%

Source: Company Management

*Please note that sales per square meter were calculated based on the "total area by working days" (as described in paragraph 6.2.2, "The impact of new stores"), in order to take into account the number of days during which new stores were in operation.

**Calculated by adding the DIO to the trade DSO minus supplier DPO.

*** Calculated as a percentage of the Company's total sales and not wholesales only.

Summary of risk factors

Any person willing to invest in the Offer shares should carefully consider all information contained in this Prospectus, including in particular the risk factors described below (which may not include all risks faced by the Company) and detailed in Section 2 "Risk Factors".

A. Risks related to the Company's operations

1. Unsuccessful expansion strategy
2. Termination of the Bahrain distribution agreement with Ace International
3. Competitors offering more modern products
4. Competition with online shopping websites
5. Failure of products to comply with specifications and regulations
6. Poor inventory management
7. Termination of or failure to renew leases or the lack of suitable properties for lease
8. Obstacles arising from franchise agreements and non-compliance with the provisions thereof
9. The inability to enter into new product distribution agreements
10. Reliance on special offers and marketing campaigns
11. Reliance on supply and support systems and IT solutions and the risks of breakdown
12. Operational risks and unexpected downtime
13. Inadequacy of insurance
14. Reliance on key suppliers
15. Reliance on financing
16. Reliance on guarantees provided by shareholders
17. Non-availability of additional financing in the future
18. Reliance on key personnel
19. Expiration or non-renewal of the Company's permits and licenses
20. Non-compliance with Saudization requirements
21. Increase in operating expenses
22. Limited experience in managing a joint stock company
23. Zakat risks
24. Reliance on transactions with related parties.
25. Participation of certain of the Company's senior shareholders and members of the Board of Directors in businesses that might compete with the Company's business
26. Litigation proceedings, complaints and fines
27. Reliance on trademarks and intellectual property rights laws
28. Risks related to employee errors
29. Accidents and injuries that may arise from the Company's operations
30. Risks related to non-compliance with laws and regulations
31. The impact of opening new stores

B- Risks related to the market and industry

1. Competitive environment
2. Political and economic risks
3. Risks related to import and export regulations and future changes thereto
4. Risks related to changes in currency exchange rates
5. Risks related to changes in interest rates
6. Membership in the WTO and its impact on the competitive environment

C- Risk related to the Shares

1. Effective control by the Selling Shareholders
2. Absence of a prior market for the Company's Shares
3. Future sale or offer of new shares
4. Non-availability of liquidity in the Exchange and share price volatility
5. The Company's inability to distribute dividends in the future

Table of Contents

List of Exhibits

1. Terms and Definitions

The following are some terms and definitions used throughout this Prospectus:

Term	Definition
Underwriting Agreement	The underwriting agreement entered into between the Company and the Underwriter.
Listing	Listing of Offer Shares and admission to listing on the Saudi Stock Exchange (Tadawul)
Shares	Ordinary shares with a nominal value of ten Saudi riyals (SAR 10) each
Offer Shares or Subscription Shares	Seven million, two hundred thousand (7,200,000) ordinary Shares of the Company's shares.
Offering or Subscription	The initial public offering of Subscription Shares
Secondary Studies	Studies based on research reports and statistics issued by governmental and non-governmental entities
HSBC	HSBC Saudi Arabia Limited
Industry and Market Advisory or Euromonitor	Euromonitor International Limited
Members of the Board of Directors	The members of the Company's Board of Directors
Senior Management / Senior Executives	The members of the Company's senior management whose named are listed in Table 5.2 "Senior Management" of this Prospectus
Related Parties	In this Prospectus, "Related Parties" shall mean: (1) Subsidiary company (2) Major Shareholders in the Company (3) Members of the Board of Directors and senior executives of the Company (4) Members of the Board of Directors and senior executives of the subsidiary company (5) Members of the board of directors and senior executives of major shareholders in the Company (6) The Company's Legal Advisor and Financial Advisor (7) Any relatives of the persons referred to from (1) through (5) above (8) Any company controlled by any person referred to from (1) through (7) above.
Control	"Control" shall mean: The ability to influence the acts or decisions of another person, whether directly or indirectly, individually or collectively, with a relative or affiliate through any of the following: (a) Ownership of 30% or more of the voting rights in the Company (b) The right to appoint 30% or more of the administrative staff. The word "Control" shall be construed accordingly.
Ace Hardware	Ace Hardware Corporation
Ace International	Ace Hardware International Holding Limited
Tadawul	The Saudi Stock Exchange or, depending on context, the automated Saudi securities trading system.
Official Gazette	Umm Al Qura, the official gazette of the Government of Saudi Arabia
Ordinary General Assembly	The Ordinary General Assembly of the Company's shareholders
Extraordinary General Assembly	The Extraordinary General Assembly of the Company's shareholders
Public	Includes subscribing Institutional Investors and Individual Investors
Receiving Agents	SABB, Bank Saudi Fransi (BSF), Al Rajhi Bank, National Commercial Bank (NCB), Riyad Bank and SAMBA
Government	The government of the Kingdom of Saudi Arabia
Executive Director	The Company's executive director

Term	Definition
Chairman	The chairman of the Company's Board of Directors
SAR or Riyals	Saudi Arabian riyals
Board Secretary	The Secretary of the Company's Board of Directors
Offer Price	SAR 70
The Company or SACO	Saudi Company for Hardware (SACO)
Person	A natural person
Net Offer Proceeds	The net proceeds of the Offer after deducting all related expenses
Managing Director	The Company's managing director
Offer Period	The period commencing on Wednesday 03/07/1436HH (corresponding to 22/04/2015G) up to and including Tuesday 09/07/1436H (corresponding to 28/04/2015G)
Lock-in Period	The Selling Shareholders, whose ownership is stated in the Prospectus, are restricted from disposing their shares for a period of 9 months from the date on which trading in the Offer Shares commences on the Exchange. After the restriction period has elapsed, the Selling Shareholders may dispose of their Shares after obtaining the CMA approval.
Listing Rules	The Listing Rules issued by the CMA pursuant to Article 6 of the Capital Market Regulations issued under Royal Decree No. M/30 dated 2/6/1424H (corresponding to 31/7/2003G) and amendments thereto
Corporate Governance Regulations	The Corporate Governance Regulations of the Kingdom of Saudi Arabia issued by the CMA under Resolution No. 1/212/2006G dated 21/10/1427H (corresponding to 12/11/2006G) as amended by CMA Resolution No. 1/10/2010 dated 30/03/1431H (corresponding to 16/03/2010G) and all amendments thereto
Auditor	PricewaterhouseCoopers
Board of Directors or Board	The Board of Directors of the Company
Financial Advisor	HSBC Saudi Arabia Limited
GCC	The Cooperation Council for the Arab States of the Gulf
Individual Investors	Saudi natural persons including divorced or widowed Saudi women with minor children from a non-Saudi husband, provided that they are able to submit proof that they are divorced or widowed and proof that they mothered the minor children.
Institutional Investors	Include a number of institutions and companies, as follows: 1. Mutual funds established in the Kingdom and publicly offered, which invest in the securities listed in the Saudi Stock Exchange if such is permitted by the fund's terms and conditions and subject to the provisions and restrictions provided in the Investment Fund Regulations 2. Persons authorized to deal in securities as a principal, provided that the financial adequacy requirements are observed 3. Companies listed on the Saudi Stock Exchange through their portfolios managed by authorized persons, and companies in the banking and insurance sectors listed on the Saudi Stock Exchange in accordance with the rules issued by the CMA, provided that the company's participation does not cause any conflict of interest
Kingdom or Saudi Arabia	The Kingdom of Saudi Arabia
Lead Manager	HSBC Saudi Arabia Limited has been appointed by the Company as lead manager
Selling Shareholders	Al Hamidi Contracting Establishment Company, Abrar International Holding Company, Abdul Rahman Hassan Abbas Sharbatly, Khalid Mohammed Abdulaziz Al Hamidi, Sameer Mohammed Abdulaziz Al Hamdi and Haytham Mohammed Abdulaziz Al Hamdi
Underwriter	HSBC Saudi Arabia Limited
Shareholders	Registered shareholders
Subscribers	Includes Individual Investors and Institutional Investors as defined in Section 1 "Terms and Definitions"
Bylaws	The Bylaws of the Company

Term	Definition
CML	The Capital Market Law issued under Royal Decree No. M/30 dated 02/06/1424H (corresponding to 31/7/2003G), as amended
Companies Regulations	The Companies' Regulations in Saudi Arabia issued under Royal Decree No. M/6 dated 22/03/1385H, as amended
Competition Law	The Competition Law issued under Royal Decree No. 25 dated 05/05/1425H
Commercial Agencies Law	The Commercial Agencies Law issued under Royal Decree No. M/11 dated 20/02/1428H, as amended
Prospectus	This document which has been prepared by the Company in relation to the Offering
Subscription Application Form	The application form to subscribe for the Offer Shares
CMA or the Authority	The Capital Market Authority of the Kingdom of Saudi Arabia
Ministry of Commerce and Industry	The Ministry of Commerce and Industry in Saudi Arabia
Ministry of Labor	The Ministry of Labor in Saudi Arabia
ERP System	Enterprise Resource Planning System
IP-VPN	Internet Protocol Virtual Private Network

2. Risk Factors

Before deciding whether to purchase the Offer Shares, prospective investors are advised to carefully consider all the information contained in this Prospectus, particularly the risk factors described below. The risks described below may not include all the risks that the Company may encounter, and additional risks may exist that are not currently known by the Company, or that may be deemed immaterial but nevertheless affect the Company's operations.

The Company's activities, financial position, prospects, results of operations, and cash flows could be adversely and materially affected if any of the following risks — identified as material — occur, or if any other risks that the Directors have not identified or are currently considered not to be material, actually occur or become material.

The Company's Directors also confirm that, to the best of their knowledge and belief, there are no other material risks besides those mentioned in this section, whose exclusion would affect investors' decisions as of the date of this Prospectus.

Subscription for the Offer Shares is only appropriate for investors who are capable of assessing the risks and merits of such an investment and who have sufficient resources to bear any loss that might result from this investment. A prospective investor who has any doubts concerning the appropriate decision should consult a licensed financial advisor for the necessary advice regarding investment in the Offer Shares.

In the event of the occurrence of any risk factors which the Company currently believes to be substantial, or the occurrence of any other risks that the Company did not identify, or that it does not currently consider to be material, the market value of the Offer Shares may decrease and prospective investors may lose all or part of their investment in the Company's Shares.

The risks stated below are not presented in order of importance or anticipated effect on the Company.

2.1 Risks related to the Company's operations

2.1.1 Unsuccessful expansion strategy

The Company's future performance depends on its ability to implement its plans and growth strategies. The Company has relied on several growth strategies including increasing the number of stores it runs in the Kingdom (for more information about the Company's strategy, see Section 4.4.3, "Company Strategy"). In addition, the successful implementation of the Company's plans and increasing the number of its stores rely on several factors including, most importantly, the following:

- The Company's ability to find, rent and equip proper locations under terms and conditions favorable to the Company;
- Availability of proper capital and financing;
- The Company's ability to procure qualified and skilled labor for the new stores;
- Developing distribution facilities, information systems and other suitable operating systems to meet the needs of new stores; and
- The suitability of economic conditions to the Company's expansion plans.

The Company's results of operations will be affected if any of these factors delay, prevent or hinder the Company from opening any of the new stores. If any delay occurs in opening new stores, this will affect the Company's results of operations, as the Company will incur the lease cost and other costs without benefiting from the expected revenues of the store during the lease period. Any of the new stores might not be profitable or might not achieve projected investment returns. This would have a material adverse effect on the Company's business, results of operations, financial position or share price, which would, in turn, have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

As for regional expansion plans adopted by the Company, it might encounter some risks and difficulties in implementing such plans which include political instability in some Arab countries including, for example, Arab Spring events, which will affect the Company's potential for expansion and growth outside the Kingdom of Saudi Arabia.

2.1.2 Termination of the Bahrain distribution agreement with Ace International

The Company entered into an exclusive distribution agreement with Ace International on 28/01/2012G to distribute its products in the Kingdom of Bahrain. The Company has not opened any stores in the Kingdom of Bahrain as of the date of this Prospectus. This agreement contains an obligation by SACO to purchase a minimum quantity of products from Ace International on an annual basis and Ace International may terminate this agreement if SACO does not comply with the terms and conditions of the agreement. Ace International informed SACO on 12/12/2014G that it must open the first store in the Kingdom of Bahrain no later than 31/12/2015G (for more information, see Section 11.5.2 “Distribution Agreements”). If the Company is unable to open its first store in the Kingdom of Bahrain during 2015G, the distribution agreement for the Kingdom of Bahrain will be terminated, which would affect the Company’s ability to expand and grow outside the Kingdom of Saudi Arabia.

2.1.3 Competitors offering more modern products

The Company’s success depends on its ability to continuously offer new products in keeping with the requirements and needs of customers. If the Company fails to update its products and its competitors manage to provide more up-to-date products or develop alternative products, the Company will lose its market share related to such products and the inventory of this product category will stagnate, which would lead to the write off of this inventory from the Company’s assets. Accordingly, this would have a material adverse effect on the Company’s business, results of operations, financial position or share price, and would also have a material adverse effect on Subscribers’ anticipated returns.

2.1.4 Competition from online shopping medium

SACO’s business relies entirely on dealing directly with customers who go to the Company’s stores to purchase the products they need, and the Company does not currently provide any online shopping services. The Saudi retail market could witness a change in how customers shop in the future, with online shopping transactions growing at a large scale, as has occurred in several international markets. The Company might not be able to adapt to this change by providing an effective and successful online shopping service for its customers, which would cause the Company to lose its market share, and this, in turn, would have a material adverse effect on the Company’s business, future plans, results of operations, financial position or share price, which would also have a material adverse effect on Subscribers’ anticipated returns or result in the loss of all or a portion of their investment in the Company.

2.1.5 Non-compliance of products with specifications and laws

The Company relies on local and international manufacturers and suppliers that provide all of the products that the Company sells. Although the Company does not directly oversee the quality of such products, the Company remains responsible for any defects therein pursuant to the applicable laws and requirements of the Ministry of Commerce and Industry. This would cause the Company to be subject to statutory claims and procedures relating to quality assurance and product safety.

Liability actions might be instituted against the Company in connection with product quality and assurance as well as adherence to all specifications and laws. These actions and procedures might take a long time and the Company might incur considerable litigation expenses. Any leaks or defamation in connection with such actions or the results thereof could affect the Company’s reputation and customer confidence in its products. If any of these risks occur, the Company’s business, results of operations and financial position could be adversely and materially affected.

During the course of importing products from some international suppliers, the Company might import products or parts thereof that were manufactured in prohibited countries, without the Company’s knowledge, which would make the Company subject to statutory sanctions and penalties. An administrative decision was previously issued against the Company by the Ministry of Commerce and Industry imposing sanctions on the Company for having imported a product which proved to have been partially manufactured in a prohibited country. This complaint is still pending before the Board of Grievances (for more information about this lawsuit, see Section 11.3, “Litigation”).

There is no guarantee that any future actions or defamation resulting therefrom, if it occurs, will not have a material adverse effect on the Company’s business, future plans, results of operations, financial position and share price, which would also have a material adverse effect on Subscribers’ anticipated returns or result in the loss of all or a portion of their investment in the Company.

2.1.6 Poor inventory management

The Company must maintain sufficient levels of inventory in order to successfully run its business, and there is no guarantee that the Company will always manage to accurately and correctly foresee the demand for certain products. Thus, it is not guaranteed that the Company will be capable of maintaining the necessary inventory of products that are in high demand from its customers. The Company’s financial performance and results of operations will be adversely affected if there is high demand for certain products and the level of Company’s inventory of these products is insufficient or unavailable.

On the other hand, the Company cannot guarantee that it will avoid an accumulation of surplus inventory due to several factors related to the nature of the Company's business and its products, including the following:

- Product development sometimes leads to the emergence of alternate products with new and different technologies. This leads to a stagnation or slump in demand for products which the Company ordered in large quantities prior to the emergence of the alternate products.
- Some suppliers request that the Company submit early purchase orders for products to allow suppliers to secure or manufacture the ordered quantity. Thus, the Company has to order these goods within a period of time ranging between three and five months prior to offering them for sale. Hence, these orders are based on the Company's forecasts for future market needs, which could cause the Company to order larger quantities than needed to avoid potential product shortages.
- Under their supply agreements with the Company, some suppliers might impose a minimum quota on the products to be ordered , and such ordered quantities could be larger than the quantity needed by the Company (for more information, see Section 11.5.2 "Distributor Agreements").
- The opening of the Company's stores might be delayed while inventories for these new stores have already been received by the Company.

The Company's inventory has recorded an accumulation and deceleration in its turnover during 2014G when compared to 2011G-2013G. In parallel with the increase in inventory, there has been an increase in days payable outstanding for suppliers as shown in the following table:

Table 2.1: Key indicators of the Company's inventory

	2011G	2012G	2013G	2014G
Inventory turnover rate for the year	1.9x	1.9x	1.9x	1.6x
Days inventory outstanding	193	190	196	233
Days payable outstanding for suppliers	55	49	43	57
Days sales outstanding (trade)*	7	4	5	4
Number of days in the cash cycle between purchase, storage and sale of products **	145	145	158	181

* Calculated as a proportion of the Company's total sales and not wholesale only

** Calculated by adding days inventory outstanding to days sales outstanding (trade) minus days payable outstanding for suppliers

If inventory continues to accumulate and the Company fails, after opening the new stores, to reduce it to the 2011G-2013G levels, then the Company will be unable to sell the surplus products and will have to sell them at low prices or write them off from the Company's records, which will affect the Company's financial performance and results of operations. The increase in the Company's inventory will cause its cash flows to drop, especially if the increase in inventory is concurrent with a slow turnover of stored products. The Company would have to delay its payments to suppliers in order to control its operating capital and cash flow, and this would, in the long run, considerably impair the Company's relations with suppliers and reduce the discounts and privileges the Company might obtain from them, or cause them to suspend their transactions with the Company entirely; which, in turn, would have a material adverse effect on the Company's financial performance and results of operations.

In addition, lack of sufficient provisions is one of the main risks related to inventory. The Company calculates a monthly provision of 1.0% of net sales for inventory shortages (as a result, for example, of theft or damages to stored goods). The Company also calculates a provision of 0.25% of net sales for slow-moving goods. The actual inventories made periodically by the Company might actually indicate that the provisions calculated are insufficient, since the inventory shortage might exceed these provisions. In addition, the Company might find that the value of slow-moving goods exceeds the provisions calculated for them, which would cause the Company to carry a loss or make additional provisions in its statement of income.

The occurrence of any of the above-mentioned factors would have a material adverse effect on the Company's business, future plans, results of operations, financial position or share price, which, in turn, would also have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

2.1.7 Termination or non-renewal of lease contracts or unavailability of suitable properties for lease

All of the Company's stores, warehouses and maintenance centers are leased under fixed-term lease contracts which are renewed in writing upon the approval of the owner, or automatically unless either party notifies the other of its intention not to renew within a specified period prior to the end of the contract term (for more information, see Section 11.9.2 "Lease Agreements"). If the landlord refuses to renew the lease contract or agrees to renew it on conditions unfavorable to the Company, the Company will have to change the location of the store or close the store, and either action will cause the Company to incur additional expenses or lower its income margin due to the temporary stoppage of sales. It is worth noting that the lessor of one of the Company's stores in the Eastern Province has requested that the lease amount be increased from SAR 1.4 million to SAR 4.5 million per year or the property be vacated. Further, the lessor instituted an action against the Company in this respect (for more information, see Section 11.13, "Litigation") and if the Company loses this action, the Company will incur additional lease expenses or will have to terminate the lease contract. This store accounted for 2.0% of the Company's total sales in 2014G.

Any of these factors would have a material adverse effect on the Company's business, future plans, results of operations, financial position or share price, which would also have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

Due to the high lease value of strategic properties in general, the Company's operations and financial position will be affected if there are no properties available for a lease amount in line with the Company's expectations.

In addition, lease contracts include contracts for leased properties owned by natural persons or individual establishments, including:

- Lease contracts for the following stores: SACO World store, Woroud store, Takhassusi store, Khurais store in Riyadh, Buraydah store in Qasim, Dammam store in Eastern Province and Andalus store in Jeddah.
- Lease contract for two warehouses, one in Al Sala District in Riyadh and the other in Al Khamrah District in Jeddah.

If these owners die, the heirs will be legally bound to abide by the terms of the lease contract until the expiration date of such contracts. However, when such contracts expire, there is no guarantee whatsoever that the heirs will agree to extend or enter into new contracts under similar conditions.

2.1.8 Complications arising from franchise agreements and non-compliance with the provisions thereof

The Company runs two stores in Tabuk and Khamis Mushait through two franchise agreements with other companies. Both agreements contain terms and conditions regulating franchise rights and the conditions for terminating them in addition to pre-emption rights in favor of the franchisee if a license is granted to open a new store in the same province (for more information, see Section 11.5.1 "Franchise Agreements"). There are risks that the franchisees will not run SACO stores in accordance with the operating requirements of the Company or that such contracts will be terminated due to the Company's breach of the provisions of the franchise agreement. The pre-emption rights granted to the franchisees will limit the Company's ability to grant licenses to other companies to open new stores in the same areas without obtaining the approval of the franchisees. If any of these factors occur, the Company's reputation and operations might be affected in such areas which, in turn, could have a material adverse effect on the Company's business, future plans and financial position.

2.1.9 Inability to enter into distribution agreements for new products

The Company must always seek to enter into new distribution agreements in order to keep up with constantly evolving market requirements. As there are a number of competitors in the retail sector, especially hardware and equipment companies (for more information, see Section 3.6.2, "Competitive Environment"), there is no guarantee that the Company will be able to enter into new contracts and agreements or renew the present distribution agreements, which will undermine growth and expansion opportunities, and have a material adverse effect on the Company's business, future plans, results of operations and financial position.

2.1.10 Reliance on special offers and marketing campaigns

The Company's business relies on marketing campaigns and special offers to increase sales (for more information, see Section 4.6.4 "Marketing Management"). The Company's business, future plans, results of operations and financial position will be adversely affected if such marketing campaigns do not succeed or if the Company fails to launch them. Marketing campaigns launched in 2014G caused the daily rate of the Company's sales to increase by 34% when compared to days that fell outside of the marketing campaigns.

To maintain sales growth, the Company may be required to run more advertising campaigns in the future, which could lead to increased customer discounts as a percentage of gross sales. This occurred in 2014G, where discounts accounted for 6.5% of gross sales compared to 4.6%, 4.0% and 4.1% in 2011G, 2012G and 2013G respectively.

In addition, errors might occur in the course of holding marketing and advertising campaigns that cause the Company to violate the instructions issued by Ministry of Commerce and Industry regulating marketing campaigns and the licenses related to these campaigns. This would make the Company subject to penalties ranging from fines to publication. During a marketing campaign held by the Company in November 2014G, an error caused certain categories of product to be invoiced without the advertised discounts being applied, whereby discounts totaling SAR 7,880 were not applied to some client invoices. This error was reversed and the discounts, leading the Company to pay an additional SAR 3,000 (SAR 100 per invoice) as compensation to those whose products were not discounted. There is no guarantee that such errors will not happen again, which, in turn, would have a material adverse effect on the Company's reputation, business, results of operations and financial position.

2.1.11 Reliance on supply, support and IT systems, and risks related to any malfunction or disruption of such systems

Information systems and databases are considered an integral part of running and managing the Company's facilities in general. The ability to rely on these systems is of great importance as they connect thousands of purchase transactions made in the Company's stores with the movement of inventory and purchase orders from suppliers. Hence, in 2013G, the Company set up the SAP enterprise resource planning (ERP) system to manage and run its operations under one unified and integrated system.

The move from the information system previously adopted by the Company to the SAP ERP system, which occurred in November 2013G, did not include the transfer of all the data for the period preceding this date. Accordingly, referring to some of the data that precedes November 2013G requires returning to the old information system, which delays the extraction of data for the period.

The SAP ERP system relies on central servers located within the Data Center-Tier 3 run by Etihad Etisalat Company (Mobily). The Company's head office and all of its stores and warehouses are directly connected to these central servers through direct communication lines (IP-VPN) provided by Etihad Etisalat Company (Mobily) and Integrated Telecom Company Ltd.

However, the Company does not guarantee that the ERP system will not experience any disruption resulting from several factors including, but not limited to, the following:

- Programming or operating errors might occur, especially since the SAP ERP system was recently adopted by the Company.
- The Company's information systems could be hacked and misused by outside parties.
- Updates or modifications required to ensure the efficient functioning of this system might be unavailable due to the Company not obtaining the necessary technical support from system providers or operators.
- Necessary updates and modifications to ensure the efficient operation of information systems might not be installed by the Company after being made available by system suppliers or operators.
- All communication lines with central servers might be cut off.
- Breakdowns might occur in the Data Center-Tier 3, causing central servers to stop functioning.

If any of the above-mentioned factors occur, the Company would not be able to maintain efficient supply, support and information solutions systems and databases, which would have a material adverse effect on the Company's business, future plans, results of operations, financial position or share price; which, in turn, could also have a material adverse effect on Subscribers' anticipated returns or result in the loss of all or a portion of their investment in the Company.

2.1.12 Operational risks and unexpected business interruptions

The Company's success depends mainly on the quality of operations in its stores and the warehouses and the maintenance centers that serve all of the Company's stores. The stores, warehouses and maintenance centers might be exposed to natural disasters such as floods and fires. For example, on 11 September 2013G, there was a fire at the Company's head office located on Al Takhassusi Street in Riyadh that resulted in considerable damage to the Company's offices and to the SACO store located in the same building, as a result of which, the Company incurred considerable costs to restore the building. The Company has estimated the total losses resulting from this fire to be SAR 25.2 million. On 1 October 2013G, another fire broke out in the distribution center of the Company's store in Al Ahsa and the Company has estimated the resulting total losses to be about SAR 3.1 million. In addition, on 17 November 2013G, flooding caused damage to the SACO store located in Badiaa District in Riyadh, with losses estimated at SAR 3.1 million.

There is no guarantee that other similar accidents will not occur in the future or, if such accidents do occur, that they will not adversely affect the Company's operations and financial position in general.

Any material interruption of the Company's business due to natural disasters or fires in any of the stores, warehouses or maintenance centers, could cause considerable damage to the Company's business, which would have a material adverse effect on the Company's activity, future plans, results of operations, financial position and share price, which, in turn, would have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

2.1.13 Insufficient insurance coverage

SACO maintains insurance policies covering its assets, general third party liability, theft of cash amounts, Fidelity guarantee, land transportation and marine cargo (for more information about insurance policies maintained by the Company, see Section 11.6, "Insurance"). There is no guarantee that these insurance policies will be adequate at all times and in all circumstances, or that the limit of insurance coverage will be sufficient in all events to pay for the claims relating to the insured risks. The Company might not be able to successfully substantiate its claim with regard to a certain liability or loss according to the insurance policies in effect because of the exclusions or conditions of insurance coverage. This will cause the Company to be liable for paying for accident related losses, which will also have a material adverse effect on the Company's business and operating and financial results.

Future events might occur for which the Company might not have adequate insurance coverage to cover all potential losses, or might not be insured against it at all, such as risks resulting from acts of aggression, political risks, war and sabotage. In addition, the Company's present insurance policies contain coverage exclusions or limitations. The current insurance policies might also be unavailable in the future. Accordingly, the losses and liabilities resulting from entirely uninsured or insufficiently insured risks could significantly increase the Company's costs, which would have a material adverse effect on the Company's business, prospects, results of operations, financial position and share price, and would also have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

On 11 September 2013G, fire broke out in the building housing the Company's head office and the SACO store located on Al Takhassusi Street in Riyadh, which resulted in total damages to the store and Company offices estimated by the Company to be SAR 25.2 million, leading to the write off of assets valued at SAR 8.9 million. The Company had previously insured the building and its contents under an insurance policy issued by Allianz, and accordingly SAR 5 million was received as a first payment in March 2014G. The Company is still following up its claim for the remaining amount of compensation from Allianz (SAR 20.2 million) through a specialized claim recovery firm. The Company recorded SAR 12.2 million as sums due from the insurance company in connection with this incident.

On 1 October 2013G, a fire broke out in the distribution center of the Company's store in Al Ahsa, which resulted in damages and losses estimated by the Company to be SAR 3.1 million and the write off of assets valued at SAR 1.2 million. The Company is still following up its claim with the insurance company for compensation in the amount of SAR 3.1 million. The Company also recorded SAR 2.5 million as sums due from the insurance company in connection with this incident.

The Company cannot guarantee that the claimed amounts as mentioned above will be collected from the insurance companies, which would lead to the write off of SAR 14.8 million, with a loss being recorded in the Company's income statement.

2.1.14 Dependence on Key Suppliers

The Company is heavily dependent on key local and international suppliers to meet its needs for products and services. If any of the key suppliers decided to terminate their contractual relationship therewith, the Company might face difficulties replacing those suppliers with other suppliers with similar qualifications and offering similar prices and quality. For example, average SACO purchases from Ace International amounted to about 31.3% of its total purchases during the years 2012G, 2013G and 2014G. In addition, the Company's average purchases from its top five suppliers equaled 47.4 % of its total purchases during the years 2012G, 2013G and 2014G (for more information, see Section 4.5.1, "Suppliers").

Some supply agreements entered into with key suppliers stipulate that the Company must fulfill a minimum annual purchase quantity, such as the distribution agreement entered into with Ace International for Bahrain and the distribution agreements with Green Vision Co. Ltd. for Artificial Glass, Juffali Technical Equipment Company and 3M Gulf Limited (for more information, see Section 4.5.1, “Suppliers”). If the Company fails to make the minimum annual purchases as stated in the agreement, suppliers may terminate these agreements or change their conditions, which could have a material adverse effect on the Company’s business, prospects, results of operations, financial position or share price.

If the Company fails to maintain long-term relations with key suppliers, especially Ace International, or if the conditions whereby the Company purchases goods and products from any of these suppliers do not suit the Company’s interests, or if one of the suppliers is unable to adequately perform their respective obligations under the supply agreements, the Company will end up dealing with other new suppliers that might not be suitable for the Company, resulting in a possible adverse and material effect on the Company’s business, results of operations, financial position or share price, which would, in turn, have a material adverse effect on Subscribers’ anticipated returns or result in the loss of all or a portion of their investment in the Company.

2.1.15 Risks of reliance on financing

The Company has entered into credit facilities agreements with several banks in the Kingdom of Saudi Arabia, including agreements with Saudi British Bank (SABB), Banque Saudi Fransi and Saudi Investment Bank in order to finance part of its business (for more information about these facilities, see Section 11.7, “Banking Facilities”).

The facilities agreements referred to above stipulate that the Company must obtain the prior written consent of these banks if the Company’s ownership structure, legal entity or shareholders are changed. The Company has obtained written approval from these banks with respect to the changes expected to be made to the Company’s ownership after completion of the Offering.

Some of the credit facilities agreements contain conditions which solely favor the bank. For example, the credit facilities agreement with Banque Saudi Fransi entitle the bank to withdraw, terminate or reduce the limits of facilities extended to the Company and demand payment of all liabilities within fifteen (15) days of serving a written notice to the Company. The bank also has the absolute right to change the amount of fees and percentage of profit and merge the accounts maintained in the name of the Company or consolidate all the amounts payable at any time at its sole discretion without any prior notice to the Company. The Company’s business, results of operations and financial position would be adversely and materially affected if the Bank decided to exercise any of these rights. In addition, under the credit facilities agreements with the banks, the Company must abide by several conditions, such as determining the maximum limits for distribution of net income and for borrowing and depositing a percentage of the sales with the lending bank. For more information about these facilities, see Section 11.7, “Banking Facilities”).

If the Company defaults on any due payments or if the Company breaches any of its obligations under the credit facilities agreement, the lenders might demand that the Company immediately repays all outstanding amounts and, if no sufficient guarantees are available for repaying the debt, the lenders could seize the Company’s assets. In addition, if any particular lender declares its debt to be due and demands payment, it is likely that the remaining lenders will demand immediate repayment of the Company’s debts. In such case, there is no guarantee that the Company will be able to obtain alternative sources of financing to repay such debts. Any of these factors would have a material adverse effect on the Company’s business, results of operations, financial position or share price, which will, in turn, have a material adverse effect on Subscribers’ anticipated returns or result in the loss of all or a portion of their investment in the Company.

2.1.16 Risks of reliance on guarantees provided by shareholders

The Company’s obligations under the credit facilities agreements are secured by personal guarantees provided by individual shareholders and by other corporate guarantees provided by companies who have a shareholding stake in the Company (for more information about these guarantees, see Section 11.8, “Guarantees”). As of the date of this Prospectus, none of the banks have waived these personal guarantees. If any of the shareholders withdraw or does not renew their guarantees, or if such guarantees expire for any reason, this will be deemed a breach by the Company of its contractual obligations, which would cause the Company’s lenders to demand immediate repayment of the debt. In such case, there is no guarantee that the Company would be able to obtain sufficient alternative sources of financing to repay these debts. In addition, there is no guarantee that the individual shareholders of the Company and representatives of companies with a shareholding stake in the Company will continue to provide guarantees after the Offering, which would affect the Company’s ability to secure credit facilities in the future. Any such factors would have an adverse and material effect on the Company’s business, future prospects, results of operations, financial position or share price, which would also have a material adverse effect on Subscribers’ anticipated returns, or result in the loss of all or a portion of their investment in the Company.

2.1.17 Unavailability of future additional financing

The Company could need additional financing in the future. Any delay or inability to secure such financing, when needed, or the availability of financing albeit under unfavorable conditions or the Company's failure to provide the required guarantees would all have an adverse effect on the Company's business. The Company's financing needs depend on its capital, financial position, results of operations and cash flows; and no assurance can be given that the Company will obtain, if necessary, the required financing in a timely manner or under favorable conditions, which would, in turn, have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

2.1.18 Dependence on Key Personnel

The Company is dependent on the abilities, expertise and services of its executive officers and other key personnel, especially Sameer Mohammed Abdulaziz Al Hamidi (Chief Executive Officer) who has worked for the Company for more than 29 years, Khalid Mohammed Abdulaziz Al Hamidi (head of the Administrative and Personnel Affairs Department) and Haytham Mohammed Abdulaziz Al Hamidi (head of the Marketing and Sales Department) who have both worked for the Company for more than fifteen years. The Company cannot guarantee that it will succeed in its efforts to retain the present employees or attract new employees with suitable expertise.

Al Hamidi Contracting Establishment Company (of which a large portion of shares are directly and indirectly owned by the Chief Executive Officer, the head of the Administrative and Personnel Affairs Department and the head of the Marketing and Sales Department) previously received 15% of the Company's net income as compensation for managing the Company. This agreement was terminated pursuant to a termination and settlement agreement dated 21/03/1435H (corresponding to 22/01/2014G), whereby Khalid Mohammed Al Hamidi, Sameer Mohammed Al Hamidi and Haytham Mohammed Al Hamidi undertook not to resign from their positions for a period of three years commencing from the date of the Company's listing (for more information about the termination and settlement agreement, see Section 11.11 "Management Agreement with Al Hamidi Contracting Establishment Company"). There is no guarantee that the above-mentioned persons will continue in their positions after the end of said period and there is no guarantee that their performance in managing the Company will not be affected following the loss of the incentives they used to enjoy through Al Hamidi Contracting Establishment Company. If they resign from the Company, there is no guarantee that the Company will be able to attract executives with a similar level of expertise.

Hence, the loss of key personnel or failure to retain qualified employees or hire other qualified employees in the future would have an adverse and material effect on the Company's business, future prospects, results of operations, financial position or share price, which in turn would also have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

2.1.19 Expiration or non-renewal of the Company's licenses

The Company is required to obtain and maintain the necessary regulatory permits, licenses and approvals with regard to its activities. The Company currently maintains a number of licenses, permits and approvals related to the operation of its business including, but not limited to, commercial registration certificates for the Company and its branches issued by the Ministry of Commerce and Industry, municipality licenses issued by the Ministry of Municipal and Rural Affairs, Saudization and Zakat certificates related to operating its business. In addition, most of the Company's licenses are subject to conditions whereby the licenses might be suspended or terminated if the Company fails to fulfill and abide by the underlying conditions. Moreover, when seeking to renew or amend the scope of a license, there is no guarantee that the concerned authority will renew or amend the license or that, if it does renew the license, no conditions will be imposed which might adversely affect the Company's performance.

Two municipality licenses, one for a SACO World store (Al Muhammadiyah District, Jeddah) and the other for the Jubail store (Al Fanateer District, Al Wajh Road) have expired on 12/08/1434H and 19/03/1435H respectively, and the Company is in the process of renewing them.

If the Company or any of its branch thereof fails to renew a license or obtain the necessary licenses for their business, if any of their licenses expire or are suspended, if any of the licenses are renewed under unfavorable conditions to the Company, or if the Company is unable to obtain additional licenses required in the future, the Company will be asked to cease carrying on its business, which would interrupt the Company's operations and cause the Company to incur additional costs, as well as have a material adverse effect on the Company's business, prospects, financial position and results of operations.

2.1.20 Non-Compliance with Saudization requirements

The Saudi Government requires that all companies operating in Saudi Arabia abide by the Saudization requirements which require a certain number of Saudi employees to be appointed and retained. Saudization requirements vary depending on a company's business. Pursuant to the instructions of the Ministry of Labor issued on 01/05/1423H (corresponding to 10/08/2002G), each company must obtain a certificate in this regard from the Ministry of Labor. At the beginning of 2013G, the Ministry of Labor decided to amend the Saudization percentages by business in accordance with the requirements of the Nitaqat program.

As of 31 December 2014G, the percentage of Saudi employees at SACO was 34.1% of the Company's total labor force. The Company has been classified within the "high green" category. However, there is no guarantee that the Company will manage to maintain its present Saudization percentage. The Company's classification could be reduced to the yellow or red zone; in which case, the Company will be subject to sanctions imposed by governmental authorities, including the following:

- The Company's applications for new employment visas will be suspended.
- The Company's applications to transfer the sponsorship of a present or potential employee will be suspended.
- The Company's non-Saudi employees will be prevented from changing their occupation listed on their employment visas;
- A number of the Company's non-Saudi employees might transfer their sponsorship to other companies within the green or premium (platinum) categories without obtaining the Company's approval.
- The Company will be excluded from participating in Government tenders or prevented from obtaining Government loans.

Moreover, the Government has taken measures to regulate the employment of non-Saudi workers in the Kingdom in accordance with the Kingdom's Labor Law and the Residency Law. The Company does not guarantee that it will be able to abide by the Kingdom's Labor and Residency laws in the future. The Government might introduce measures against expatriate workers who do not work for the employer sponsoring them and do not perform work that is consistent with their job description (as stated in their work permit). There is no guarantee that the Company will be able to provide the necessary manpower or employ the required number of expatriate workers under conditions favorable to the Company. In January 2015G, the Ministry of Labor issued a violation against the Company for SAR 5,000 because the work performed by one of the employees of the SACO store in Yanbu was not consistent with his job description as stated on his work permit.

The Company may also faces challenges in retaining its Saudi employees. If the number of employees in this category drops, the total Saudization percentage will drop.

Moreover, any change in the laws relating to residencies could result in increased costs related to the recruitment of foreign labor, as well as the issuance or renewal of residency permits. This would adversely affect the Company, its financial position and results of operations. In 2013G, the Ministry of Labor increased the fees for renewing the permits of foreign employees whose number exceeds the number of Saudi employees from SAR 100 to SAR 2,500. This directly affected the Company as the cost of fees for renewing permits for the Company's non-Saudi employees increased from SAR 3.2 million in 2012G to SAR 4.9 million in 2013G, an increase of 47% in the average cost of fees for renewing permits for non-Saudi employees (SAR 4,271 per non-Saudi employee in 2013G compared to SAR 2,900 in 2012G). The cost of fees for renewing the permits of the Company's non-Saudi employees for 2014G was SAR 3.7 million.

The Company's business, results of operations, financial position or share price would be adversely and materially affected if any of the above-mentioned factors transpire, which, in turn, would also have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

2.1.21 Increased operating expenses

Throughout the past years, the Company recorded a sequential increase in its operating expenses, especially in connection with employee salaries and other benefits (which carried a compound annual growth rate of 12% between 2012G and 2014G) as well as lease expenses (which also carried a compound annual growth rate of 12% between 2012G and 2014G). The Company expects that these operating expenses will continue to rise in the coming years.

The Company's lack of success in controlling the increase in its operating expenses and maintaining its income margins through a growth in sales commensurate with the rise in the operating expenses would have an adverse and material effect on the operations of the Company and its financial position.

2.1.22 Limited experience in managing a publicly listed company

Since its establishment, the Company has been managed as a private company and hence, its Senior Management has limited to no experience in managing a publicly listed company, especially in connection with compliance with the laws and regulations of joint stock companies listed on the Exchange. In particular, senior management personnel must exert additional efforts to ensure the Company's compliance with the regulatory rules and regulations related to disclosure as imposed on companies listed on the Exchange, which could reduce the time allotted by the Senior Management to manage the daily business of the Company.

The Company has recently approved internal corporate governance regulations (for more information, see Section 5.6.4 "Corporate Governance"). The Company also formed committees governed by specific rules that define their duties and responsibilities (for more information, see Section 5.6 "Board Committees and their Responsibilities"). Since these committees were recently formed and the Company's internal corporate governance manual was recently adopted, the Company cannot guarantee that the members of these committees will be able to assume their respective responsibilities and follow the work methodology which safeguards the interests of the Company and those of its shareholders. This will affect the implementation of the Company's corporate governance manual as well as the effective control of the Company's Board of Directors over the management of the Company's business through those committees. This might, on the one hand, result in the Company's failure to abide by CMA rules and implementing regulations following the Offering, which would expose it to the risk of being fined or penalized by the CMA. On the other hand, it may result in operational, administrative and financial risks. Accordingly, this would have an adverse and material effect on the Company's future business, its financial position and results of operations.

2.1.23 Zakat risks

The Company's last final Zakat withholding was for the financial period ended 31/12/2007G. The Company has not, since that date, received any final Zakat assessments for the financial years ended 31 December 2008G to 31 December 2014G.

The Company cannot predict what differences the Department of Zakat and Income Tax might impose on the Company in order to obtain the final Zakat assessments for the above-mentioned financial years. The Company has not set aside any provisions for such differences in its financial statements. The Department of Zakat and Income Tax may impose significant Zakat differences on the Company which would be carried in the income statement and would have an adverse effect on the Company's net income. This would affect the shareholders of the Company including both current and new shareholders subscribing for the Company's shares, who will have to indirectly bear the additional payments related to these claims in excess of the amounts allocated for that purpose in the Company's financial statements for the fiscal year ended 31/12/2014G.

2.1.24 Reliance on Related Party Transactions

In some of its operations, the Company relies on transactions with Related Parties. These transactions presently include the two lease contracts for the two stores owned by the heirs of Abdullah Taha Bakhsh; revenues from those two stores accounted for 6.7% of the Company's total revenues in 2014G. Transactions with Related Parties include the transactions for the purchase of some products from SAMACO, which is owned by the shareholder Abdul Rahman Hassan Abbas Sharbatly (for more information, see Section 11.10, "Transactions with Related Parties").

There is no guarantee that these contracts with Related Parties will be renewed after they expire, as the Board of Directors or the General Assembly of the Company might not agree to renew such contracts and the other parties might not agree to renew them under the conditions required by the Company. Since the Company relies on these contracts, their termination will have a material adverse effect on the Company's business, future prospects, results of operations, financial position or share price, which will also have a material adverse effect on Subscribers' anticipated returns or result in the loss of all or a portion of their investment in the Company.

2.1.25 Involvement of certain of the Company's substantial Shareholders and Board Directors in businesses that might compete with the Company's business

It is possible that the Company's substantial Shareholders or Board Directors might enter into business activities competing with the Company's principal or non-principal business activities, which could lead to a conflict of interest between the Company's business and that of such Shareholder or directors, which could adversely affect the business of the Company in connection with such activities, as well as have an adverse effect on the business of the Company, its financial position and results of operations.

One of the Company's directors, Samauel Abdullah Taha Bakhsh, is a partner in Ritaj Distinct Business Investment Company which, in turn, owns 25% of Marketing Services & Commercial Projects Operation Company which operates in the business of selling toys (which account for 1.6% of the Company's total revenues in 2014G), resulting in a conflict of interest between his business and the Company's business.

The Company does not guarantee that there will be no conflict of interest between the Company's business and the businesses conducted by substantial shareholders or directors, or between the Company's business and that of the companies in which substantial shareholders or directors have a shareholding, which would have an adverse affect on the Company's business, financial position and results of operations.

2.1.26 Litigation proceedings, complaints and fines

The Company is subject to actions and complaints which may be submitted by any of its customers, suppliers, employees, lessors, franchise owners or governmental authorities supervising and regulating the Company's business. A number of actions and complaints have currently been instituted against the Company (for more information about such lawsuits, see Section 11.13 "Litigation"). The Company does not provide any guarantees on the final outcomes of such lawsuits, complaints or amounts that may be incurred as a result of such cases and judicial proceedings. These cases and complaints could affect the Company's reputation and customer confidence. If the Company loses any existing judicial actions, any future cases, or the Company is exposed to large fines as a result of complaints filed against it. This would have a material adverse effect on the Company's business, future prospects, financial position and results of operations.

In addition, some of the distribution agreements entered into by the Company with overseas suppliers are subject to foreign laws and any disputes arising from such agreements are referred to foreign courts or to arbitration outside the Kingdom. For example, the distribution agreement for Bahrain with Ace International is subject to the laws of the state of Illinois in the USA, and disputes will be referred to the United States Arbitration Association (for more details, see Section 11.5.2 "Distribution Agreements" of this Prospectus). It is possible that the judicial procedures and legal or regulatory requirements in the country of jurisdiction might differ from those applied in the Kingdom, in which case the Company might incur additional litigation costs in this regard. In the event that a dispute regarding any of these agreements arises before foreign courts or in foreign arbitration, the Company cannot guarantee the final results of the disputes, which could have a material adverse effect on the Company's business, future prospects, financial position and results of operations.

2.1.27 Dependence on trademarks and intellectual property rights

The Company has registered a number of trademarks in the Kingdom and other GCC states, such as Qatar and Bahrain (for more information, see Section 11.12 "Intangible Assets"). Any event causing material damages to the reputation of any of the Company's trademarks will have an adverse effect on the value of such trademarks and consequently on the revenues generated from their use in the Company's business. Any breach or unlicensed or illegal use in connection with the Company's intellectual property rights will have a material adverse effect on the Company's business, future plans, results of operations, financial position or share price, which, in turn, will also have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

2.1.28 Risks related to employee misconduct

The Company does not guarantee that its employees will not commit any misconduct, such as unlawful activities, misuse of information or systems, disclosure of confidential information, involvement in disseminating misleading information or non-compliance with internal regulations, which could result in losses, fines or financial liabilities for the Company, or cause harm to the Company's reputation. Since the Company does not guarantee such employee misconduct will not occur, the Company cannot guarantee that such misconducts will not have an adverse effect on the Company's performance and results of operations.

2.1.29 Accidents and injuries resulting from the Company's operations

In conducting its business, the Company is exposed to a number of risks related to accidents involving the transportation and storage of goods, the use of heavy-duty equipment in stores and the storage of chemicals. If any technical or human errors or negligence occur in relation to the operations of the Company, such faults could cause damages and loss of life, property or equipment. If the Company is found to be liable for such faults, whether intentionally or unintentionally, then this might lead to legal proceedings, the suspension of the Company's business, the closure of its stores, withdrawal of the licenses issued by the relevant authorities or actions filed against the Company, which could result in the payment of financial compensation that might not be fully covered by insurance (see Section 2.1.13, "Insufficiency of Insurance Coverage"). If any of the above risks occur, this would have a material adverse effect on the Company's business, prospects, financial position and results of operations.

2.1.30 Risks relating to non-compliance with laws and regulations

The Company's business relies on distribution agreements entered into by the Company with a group of suppliers whereby the Company is appointed as an exclusive distributor in the Kingdom for a set of products. The Company's purchases from Ace International, with which the Company has an exclusive distribution agreement, accounted for 37%, 36% and 24% of the SACO's total purchases in 2012G, 2013G and 2014G respectively. In addition, SACO has also entered into exclusive distribution agreements with both Juffali Technical Equipment Company (for some Kärcher brand products) and Ningbo Liyang Curtain Company Limited for which the volume of purchases exceeds 1% of the Company's total purchases as of the date of this Prospectus (for more information please see Section 11.5.2 "Distribution Agreements").

The Council of Competition in the Kingdom might consider the appointment of the Company as an exclusive distributor for some products a breach of the Competition Law and, based on this law impose penalties on the Company, which would have a material adverse effect on the Company's business, prospects, financial position and results of operations.

The relevant governmental authorities might also amend applicable laws or policies in the Kingdom in a manner which may not be in the Company's interests. In the event that those authorities amend current laws in a manner that results in the lack of recognition of exclusive distribution rights granted by foreign suppliers to Saudi companies, this would render the exclusive rights granted to the Company by its various suppliers unenforceable in Saudi courts, which would lead to the Company's loss of such rights and to the possibility of those suppliers entering into contracts with other companies in the Kingdom to distribute its products, which would have a material adverse effect on the Company's business, prospects, financial position and results of operations.

Finally, the Company's operations are subject to the laws of health and safety and security which fall under the purview of the Civil Defense Department, Ministry of Commerce and Industry, Ministry of Labor and its offices, and different municipalities in the provinces in which the Company carries out its business. These laws and regulations could be changed due to political, economic or environmental factors. In addition, most of the Company's licenses are subject to conditions and the licenses could be suspended or terminated if the Company fails to fulfill and abide by the relevant conditions. If the Company or any affiliate or subsidiary thereof fails to renew a license or have any of the necessary licenses issued for their business; if any of their licenses are terminated or suspended; if any of the licenses are renewed under conditions that are unfavorable for the Company; or if the Company is unable to obtain the additional licenses required in the future, then the Company will be asked to stop carrying out its business, which would interrupt the Company's operations and cause the Company to incur additional costs, as well as have a material adverse effect on the Company's business, prospects, financial position and results of operations.

2.1.31 Effects of opening new stores

Future growth of the Company's business depends on its ability to open new stores and find proper locations for them. Opening new stores could adversely affect the sales of other Company stores, if any, in the same province. In the past, the opening of some new Company stores caused a drop in the sales of SACO's neighboring stores for varying periods of time.

For example, the opening in 2011G of the SACO World store in Dhahran in the Eastern Province, caused the sales of the neighboring SACO store in Al Khobar to drop by 50%. The average sales of the Al Khobar store were SAR 8.9 million in the first half of 2011G, dropping to SAR 4.4 million in the second half of the year after the SACO World store in Dhahran was opened in June of that year. Accordingly, opening new stores without taking into consideration the potential impact on existing stores in the same province will adversely affect the Company's operations and financial position in general.

2.2 Market and sector-related risks

2.2.1 Competitive environment

The Company operates in a competitive environment where the customer base is divided into different groups that include contractors, homeowners, project owners and retailers.

The Company has a number of competitors (for more information, see Section 3.6.2, "Competitive Environment") and any of the competitors might: (a) foresee the course of market development more accurately than the Company; (b) provide superior or specialized services or sell superior or specialized products; (c) have the ability to provide similar products and services at a lower cost; (d) develop stronger relationships with customers; (e) adapt more quickly to advanced technology or change in customer requirements; (f) develop a network of branches superior to that of the Company; or (g) obtain financing on terms more favorable than those available to the Company. As a result, it might sometimes be difficult for the Company to successfully compete with its competitors.

Moreover, manufacturers and distributors with whom the Company deals might decide to sell and distribute such products in the Saudi market directly to contractors, wholesale distributors and small retailers in the future, or enter into exclusive distribution agreements with other distributors.

In addition, aggressive pricing policies adopted by SACO competitors might affect the Company's ability to compete, and an oversupply of products available in the market could cause greater competition, leading to material adverse effects on the Company's business, results of operations, financial position or share price, which, in turn, will also have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

Hence, there is no guarantee that the Company will be able to effectively compete with present and future competitors, and the changes in the competitive environment could cause the prices and margins to drop or cause the Company to lose its market share, and this, in turn, would affect the Company's income margins.

2.2.2 Political and Economic Risks

The Company's performance depends on the prevailing economic conditions in Saudi Arabia and on global economic conditions that affect the Kingdom's economy.

Despite the growth of the Saudi economy in other sectors, the Saudi economy and governmental spending are still dependent on the price of oil and gas in global markets. Therefore, any drop in the prices of oil and gas could lead to a substantial slowdown or depression in the Saudi economy or in government spending plans.

Any unexpected major changes in the political, economic or legal environment in Saudi Arabia or other countries will have a material adverse effect on the Company's business, future prospects, results of operations, financial position or share price, which, in turn, will also have a material adverse effect on Subscribers' projected returns, or result in the loss of all or a portion of their investment in the Company.

2.2.3 Risks relating to import and export regulations and future changes thereto

The imposition of new legal or regulatory requirements, such as anti-dumping duties, countervailing measures, import and customs quotas, sanctions, boycotts and other measures, whether adopted by the Government or directed by regional authorities, and the delay of governmental approvals, could have a material adverse effect on the Company's business, future prospects, results of operations, financial position or share price, which, in turn, will also have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

2.2.4 Risks relating to exchange rate fluctuations

The Company currently conducts its transactions primarily in US dollars and Saudi riyals but in the future, the currencies through which SACO conducts transactions with suppliers might change, and the Company will then purchase goods in currencies other than US dollars or currencies which are not linked to it. The exchange rates of such currencies may change according to regional or international developments, which would cause the cost of the Company's purchases to increase.

The Company's purchases might be directly affected by local currency exchange rate in the countries of the exporters with whom the Company conducts business in US dollars, such as China, which would cause the cost of such purchases to increase.

If the Company is unable to reflect the rise in purchase costs on its products' sale price, then this would have a material adverse effect on the Company's business, future plans, results of operations, financial position or share price, which will also have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

2.2.5 Risks related to interest rate fluctuations

The Company has a number of short-term facilities which are annually renewed but may be subject to change resulting from interest rate fluctuations. Any adverse change in interest rates could have a material adverse effect on the Company's business, future prospects, results of operations, financial position or share price, which will also have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company. For more information about the Company's facilities agreements, see Section 11.7 "Banking Facilities").

2.2.6 Membership in the World Trade Organization and its impact on the competitive environment

Since Saudi Arabia accession to the World Trade Organization, several foreign companies have been able to establish companies in the Kingdom in order to carry out wholesale and retail trade after obtaining a license from the Saudi Arabian General Investment Authority. This has increased competition among national and Saudi companies funded by foreign capital in the retail sector. It must be pointed out that some foreign companies whose products are distributed by SACO might establish companies in the Kingdom in association with Saudi companies or persons to conduct wholesale and retail business. This could reduce the Company's market share or could have a material adverse effect on the Company's business, financial position, value of shares and profitability, which, in turn, will also have a material adverse effect on Subscribers' anticipated returns or result in the loss of all or a portion of their investment in the Company.

2.3 Risks related to the Shares

2.3.1 Effective Control by the Founding Shareholders

Following completion of the Offering, the Selling Shareholders will collectively hold no less than 70% of the Company's capital, and, in addition, three of the Selling Shareholders (namely, Sameer Mohammed Al Hamidi, Khalid Mohammed Al Hamidi and Haytham Mohammed Al Hamidi) occupy the three key executive positions in the Company (for more information, see Section 5.4 "Senior Management"). Hence, the Selling Shareholders will be able to influence all matters and decisions requiring the approval of the Shareholders including the election of the Directors, approval of contracts and important Company activities and amendments which might be made to the Company's capital and By-laws. Such powers might be used in a manner which materially and adversely affects the Company's business, future prospects, results of operations, financial position or share price, which, in turn, will also have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

2.3.2 Absence of a prior Market for the Company's shares

There is currently no, nor has there been previously, a market for the Company's Shares on the Exchange; and there can be no assurances that an active trading market for the Company's Shares will develop or be sustained after the Offering. The lack of an active trading market for the Company's shares may negatively affect the liquidity and market price of those shares.

In addition, the Offer Price was determined based on several factors such as the Company's position, future prospects, the market in which the Company competes and an assessment of the Company's administrative, operating and financial results. Various factors, such as fluctuations in financial results, general conditions, overall economic position and the regulatory environment in which the Company operates, and other factors beyond the Company's control, would cause significant fluctuations in the liquidity and trading price of the Company's shares, leading to material adverse effects on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

2.3.3 Future Sales and Offers

Sales of large numbers of the Company's Shares on the market after the completion of the Offering or the perception that those sales will occur, could adversely affect the Share's market price.

Upon the successful completion of the Offer, the Selling Shareholders will be subject to a lock-in period of 9 months during which t they may not dispose of any Shares that they own. The sale of a substantial number of Shares by any of the Selling Shareholders following the 9 month lock-in period could have an adverse effect on the market for the Shares, and may result in a lower market price.

The Company does not currently intend to issue additional shares after the end of the Offering. If the Company decides to raise additional capital by issuing new shares, the newly issued shares will cause the value of the Offer Shares to drop. Occurrence of any of the above-mentioned factors would have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

2.3.4 Lack of liquidity in the Exchange and fluctuation in share price

Subscribers may not be able to resell their Offer Shares at or above the Offer Price, or at all, since the market price of the Offer Shares may be negatively affected after the Offer by various factors within or outside the Company's control, including, variation in anticipated operating results, market conditions, or changes in Government regulations. Moreover, capital market fluctuations and changes in economic conditions might have a material adverse effect on Subscribers' anticipated returns, or result in the loss of all or a portion of their investment in the Company.

2.3.5 Company's inability to distribute dividends in the future

Future distribution of dividends depends on several factors including the Company's ability to achieve profits, its financial position and requirements related to statutory reserves and distributable reserves, as well as general economic conditions and other factors that the Board of Directors may deem significant from time to time.

The Company makes no assurance whatsoever that the payment of any dividends will actually be approved by the Shareholders in the General Assembly Meetings nor any assurance as to the amounts which will be paid in any given year. Similarly, the Company may not guarantee a fixed profit for each Share in any given fiscal year.

3. Industry and Market Data

3.1 Introduction

SACO commissioned Euromonitor International (hereinafter referred to as "Euromonitor"), an independent market research and consulting company, to prepare a market study on the hardware and home improvement retail market in Saudi Arabia.

The information below is based on an independent market study prepared by Euromonitor, which has given and not withdrawn its written consent for its market report to be published in this Prospectus as at the date of its publication. Euromonitor does not itself, nor do any of its employees or relatives, have shares or interests of any kind in the Company or any of its Subsidiaries.

Estimates and prospects set out in this Prospectus have been prepared on the basis of a market study prepared by Euromonitor, which include estimates based on published sources and interviews conducted by Euromonitor with a number of retailers, wholesalers and distributors in the Saudi market. Best practices have been used in line with the industry's requirements through relying on the best market study techniques and methodologies developed by Euromonitor. Accordingly, Euromonitor believes that it has used sources of information and methodologies that are appropriate to this study and is not aware of any deficiency or lack of information in the market information that could materially affect the accuracy of the information included herein. Due to the nature of market research techniques and methodologies, Euromonitor does not guarantee the accuracy or completeness of the information included herein, thus it assumes no liability for losses incurred by investors as a result of their reliance on this section.

3.2 Definitions

SACO divides its products into five main sections including several categories of products, as shown in the following table. Euromonitor prepared its report using the same product categories that SACO uses to divide the market. The market study only includes the products mentioned in the table below.

Table 3.1: Market study product categories

Section	Category	Subcategory	Products Included
Home	Housewares	Cleaning Accessories	Cleaning tools and supplies, household cleaners, bathroom cleaners, kitchen cleaners, floor cleaning and care, jewelry and metal cleaners, carpet cleaners
		Dining and Kitchenware	Tableware, flatware, drinkware, serveware, linens, china, cutting boards, pantryware, paper towel holders, spice holders, racks, food storage, sink ware, kitchen organizers, kitchen garbage bins, kitchen textiles, cutlery, food preparation gadgets, manual tea and coffee makers and cruets.
		Laundry Accessories	Ironing boards and accessories, bins, drying racks, garment racks, detergents and deodorizers and hangers
	Lighting	Outdoor Lighting	Lamp posts and outdoor wall lighting
		Ceiling Lighting	Chandeliers, pendant lights, track lighting, recessed lighting, and spotlights
		Solar lighting	All solar lighting products
	Bed and Bath	Sofa Covers	Sofa Covers
		Duvets	Duvets
		Pillows	Pillows, small pillows

Section	Category	Subcategory	Products Included
DIY	Hand and Power Tools	Hand Tools	Cutting tools and pliers, files, planes, hammers and striking tools, hand drills, gimlets and awls, hand saws and accessories, screwdrivers and nut drivers, sockets and wrenches, clamps and vices, tool sets, fastener tools, knives, blades and sharpeners, layout measuring tools, protective and safety equipment, tool holders and storage, torch kits, fuel and accessories.
		Power Tools	Drills, bench top and stationary tools, grinders, multi tool kits, planers, pneumatic tools, rotary tools, routers, sanders and polishers, saws, screwdrivers, specialty power tools, welding and accessories, soldering and accessories and blowers.
	Paint Supplies	Adhesives	Adhesives, glues, tape and glue guns
		Paint Cleaners	Paint and stain cleaners
		Removers and Solvents	Paint and stain removers
		Brushes	Extension poles and paint brushes
		Ladders and Scaffolding	Telescopic ladders, extension ladders, folding ladders, stepladders, platform ladders, multiuse ladders, step stools, vertically rising ladders and scaffolding
		Rollers and Trays	Roller covers, paint trays, roller frames, trim and edge painting tools and telescoping extension poles.
	Plumbing	Bathroom vanities and cabinets	Single sink vanities, double sink vanities, side cabinets, bathroom wall cabinets, corner bathroom cabinets, lockable medicine cabinets
		Bathroom and kitchen sinks	counter top basins and kitchen sinks
		Shower Enclosures	shower rooms and shower enclosures
Tools, Equipment and Building Materials	Hardware	Baby and Child Safety	Bed rail secure lock, angle lock, cabinet and door latch, electrical outlet cover, adjustable harness, under door gripper, toilet lock and safety gates.
		Doors and windows	Wooden doors and plastic doors
		Door handles	Handle sets, knobs and accessories
		Fasteners and nail hardware	Fasteners, nails
		Locks	Padlocks
	Building Materials	Floor covering	Parquet and vinyl flooring
	Automotive	Accessories	Spotlights, wipers, hazard and safety, wheel covers, door protection, car locks, car power accessories, car covers and car decor
		Car sprays	Car wax sprays, interior car care sprays, all-purpose cleaner sprays, car cleaner sprays and tire sprays
	Storage and Organization	Storage Baskets	Baskets
		Laundry storage	Clothes Hamper
		Shelves	Boards and brackets, free standing shelving and wall mounted shelving

Section	Category	Subcategory	Products Included
Outdoor Supplies	Lawn and Garden	Garden Tools	Axes, picks and sledge hammers, forks, hoes and rakes, pruning trimming equipment, specialty garden hand tools, tarps and accessories, gloves and apparel and shovels
		Power Equipment	Mowers and tractors, hedge trimmers, string trimmers and edgers, chain saws, pressure washers, generators, blowers, outdoor power equipment parts and gasoline water pumps
	Outdoor Furniture	Grills	Charcoal grills, portable grills and gas grills
		Outdoor furniture	Beach furniture, patio furniture sets, patio chairs, patio cushions, patio benches, chaise lounges, patio tables, patio accessories, umbrellas, swings and gliders.
		Pools	Pools and pool accessories
		Outdoor Play	Play toys, play set slides and climbers, play set swings and rings
	Indoor Furniture	Office Furniture	This category includes office furniture and safes used in homes and excludes office furniture used in companies including the following product categories: desks, tables, office chairs and accessories, filling cabinets and book cases
		Safes	Hotel safes, gun safes, cash boxes and business safes
Power Tools	Electrical Appliances	Home Appliances	Air fresheners and cleaners, refrigerators, freezers, washing machines, vacuum cleaners, irons, sewing machines, cooling and accessories, air conditioners, fans and heating.
		Kitchen Appliances	Food processors, blenders, juicers, rice cookers, food steamers, fryers, cookers, microwaves and electric ovens, popcorn makers, grills, toasters, kettles, coffee makers and water dispensers
	Sporting Gear and Accessories	Fitness Equipment	Sports accessories, basketball stands and hoops, team sports
		Outdoor Sports	Treadmills, exercise bikes, elliptical, steppers, vibration machines and fitness electronics

Source: Euromonitor and the Company

Other definitions	
B2B	Sales to organizations larger than ten employees. Sales are mainly direct from supplier or direct imports from country of origin.
B2C	All sales through retail outlets including sales to individuals and small contractors.
Small Contractors	Sales to small organizations of ten or less employees purchasing directly from a retail outlet channel.
Private labels	Brands belonging to retail outlets or a supermarket or hypermarket, bearing the name of the store and are usually more affordable than international brands.
Hypermarket	Retail outlets with an area of over 2,500 square meters, which are primarily involved in selling food products and separate non-grocery products.

3.3 Overview of the economy of Saudi Arabia

Saudi Arabia recorded the highest GDP in the Middle East in 2013G, at SAR 2,794.8 billion. This was mainly driven by the oil and gas industry, which contributes more than half of the market's GDP. Decreased oil prices are expected to lead to a slowdown of GDP growth during 2013G-2018G. However, the Kingdom's expected ability in the foreseeable future to maintain its budget in order to encourage investments in infrastructure, construction and other sectors limits the effect of this slowdown on the economy in general and on local consumption in particular.

Saudi Arabia has one of the fastest growing populations in the GCC region. The number of households in Saudi Arabia in 2013G was around 5.3 million and a CAGR of 2.4% is expected between 2013G-2018G. Consumer spending is expected to maintain a similar growth rate for the historic period (2008G-2013G), driven by growing disposable income and the oil and gas-supported economy. The above mentioned factors are the key drivers of hardware and home improvement retail market growth, as the sector provides products required in every home.

Table 3.2: GDP and GDP per capita (2008G-2018G)

Category	Unit	2008A	2013A	2018F	CAGR 2008G-2013G	CAGR 2013G-2018G
GDP	SAR million	1,949,237.8	2,794,771.9	3,271,484.4	7.5%	3.2%
GDP per capita	SAR	74,493.2	95,321.6	101,101.6	5.1%	1.2%

Sources: Euromonitor from national statistics, UN, IMF and OECD

The strong economy in Saudi Arabia is driving growth in annual disposable income. Annual disposable income per capita stood at SAR 29,588.8 in 2013G, and is expected to grow at a CAGR of 1.4% over the 2013-2018G period.

Table 3.3: Total annual disposable income and disposable income per capita (2008G-2018G)

Category	Unit	2008A	2013A	2018F	CAGR 2008G-2013G	CAGR 2013G-2018G
Annual disposable income	SAR million	555,801.4	867,524.5	1025,379.1	9.3%	3.4%
Annual disposable income per capita	SAR	21,240.8	29,588.8	31,688.2	6.9%	1.4%

Sources: Euromonitor from national statistics, UN, IMF and OECD

3.4 Population and consumption growth trends

3.4.1 Increasing number of households and consumer diversity

The population of Saudi Arabia was around 29.3 million people in 2013G and is expected to grow at a rate of 2% annually over the 2013G-2018G period. The expatriate population was around 32% of the total population in 2013G, creating diversified demand and different pricing and quality levels for hardware and home improvement products based on consumer culture and taste. There were around 5.3 million households in Saudi Arabia in 2013G. The number of households is expected to grow more rapidly than the overall population due to the decreasing number of members per household, which fell by around 0.7% annually between 2008G and 2013G.

Table 3.4: Demographic and macro-economic indicators 2008G, 2013G, 2018G

	Unit	2008A	2013A	2018F	CAGR 2008G-2013G	CAGR 2013G-2018G
Total population	'000	26,166.6	29,319.4	32,358.4	2.3%	2%
Population (male)	'000	14,601.1	16,127.8	17,645.0	2%	1.8%
Population (female)	'000	11,565.6	13,191.6	14,713.4	2.7%	2.2%
Number of households	'000	4,615.1	5,304.8	5,984.6	2.8%	2.4%

Source: Euromonitor from national statistics, UN, IMF and OECD

3.4.2 Villas: Main type of residential units in Saudi Arabia

Around 60% of the total residential units in Saudi Arabia in 2013G were villas according to the Central Department of Statistics and Information. This high percentage of villas drives demand for lawn and garden equipment as well as outdoor furniture, due to the moderate temperatures in the winter.

3.5 Overview of the Saudi retail market

3.5.1 Overview

The retail sector in Saudi Arabia is witnessing continuous growth, amounting to SAR 375 billion in 2013G, driven by the growing economy and rising disposable income (estimated at a CAGR of 3.4% between 2013G and 2018G), in addition to modernization and exposure to a wide range of products and brands for all segments of society. Store-based retailing is one of the most important shopping channels in Saudi Arabia (compared to online shopping), mainly because Saudi consumers prefer to physically select products before buying them. Shopping is also considered a form of entertainment.

Non-grocery retailers are the largest contributor to the retail industry, accounting for 59.8% of the total value of retail industry in the Kingdom. The electronics and appliances industry has the highest sales among non-grocery retail industries, mainly driven by the high price per unit for home appliances compared to other categories. Moreover, the construction of new residential units to address the housing shortage on one hand and the increased demand for remodeling and renovation on the other hand have a positive impact on this sector.

3.5.2 Overview of the hardware and home improvement products sector

The hardware and home improvement products sector was valued at SAR 17 billion in 2013G, having grown at a 4.6% CAGR over 2008G-2013G. The hardware and home improvement products sector covered in the study includes the following categories: electrical appliances, automotive, bed and bath, housewares, lawn and garden, lighting, outdoor living, building materials, paint supplies, plumbing supplies, sporting gear and accessories, indoor furniture, storage and organization needs, hand and power tools and DIY Tools and hardware, as defined by SACO and Euromonitor.

The scope of the study covers the B2C market solely, i.e., products sold either to end consumers directly, or to freelance contractors and small contracting companies (less than ten employees).

Table 3.5: Total size of the hardware and home improvement product market (value), 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Automotive	223.8	235.0	246.7	259.0	272.0	286.1	5.0%
Bed and Bath	2,060.1	2,150.2	2,244.3	2,342.5	2,445.0	2,555.1	4.4%
Building Materials	290.9	304.0	317.7	332.0	346.9	364.3	4.6%
DIY Tools	551.2	575.7	601.3	628.1	656.0	685.2	4.4%
Electrical Appliances	4,306.7	4,581.8	4,874.6	5,186.1	5,517.5	5,740.7	5.9%
Indoor Furniture	154.9	162.7	170.9	179.6	188.7	199.0	5.1%
Hardware	273.6	282.3	291.3	300.6	310.2	320.9	3.2%
Housewares	3,320.4	3,453.0	3,593.1	3,741.3	3,898.0	4,017.8	3.9%
Lawn and Garden	379.7	389.3	399.2	409.3	419.7	430.3	2.5%
Lighting	281.6	295.2	309.5	324.5	340.2	360.0	5.0%
Outdoor Living	299.3	309.4	319.8	330.6	341.7	354.0	3.4%
Paint Supplies	332.3	341.5	351.0	360.8	370.8	379.9	2.7%
Plumbing	864.2	898.7	934.6	971.9	1.010.7	1.046.0	3.9%
Sporting Gear and Accessories	249.6	257.1	264.8	272.7	280.9	291.6	3.2%
Storage and Organization	277.3	288.4	299.9	311.9	324.4	337.6	4.0%
Total Market Size	**13,865.6**	**14,524.4**	**15,218.7**	**15,950.8**	**16,722.7**	**17.368.6**	**4.6%**

Source: Euromonitor estimates from trade interviews and Secondary Studies

Table 3.6: Total non-grocery retail market and the share per category, 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G
Total non-grocery retail market	174,284.4	172,526.7	178,262.4	189,513.6	201,593.7	217,496.3
Each category share of the total non-grocery retail market						
Automotive	0.13%	0.14%	0.14%	0.14%	0.13%	0.13%
Bed and Bath	1.18%	1.25%	1.26%	1.24%	1.21%	1.17%
Building Materials	0.17%	0.18%	0.18%	0.18%	0.17%	0.17%
DIY Tools	0.32%	0.33%	0.34%	0.33%	0.33%	0.32%
Electrical Appliances	2.47%	2.66%	2.73%	2.74%	2.74%	2.64%

SAR million	2008G	2009G	2010G	2011G	2012G	2013G
Indoor Furniture	0.09%	0.09%	0.10%	0.09%	0.09%	0.09%
Hardware	0.16%	0.16%	0.16%	0.16%	0.15%	0.15%
Housewares	1.91%	2.00%	2.02%	1.97%	1.93%	1.85%
Lawn and Garden	0.22%	0.23%	0.22%	0.22%	0.21%	0.20%
Lighting	0.16%	0.17%	0.17%	0.17%	0.17%	0.17%
Outdoor Living	0.17%	0.18%	0.18%	0.17%	0.17%	0.16%
Paint Supplies	0.19%	0.20%	0.20%	0.19%	0.18%	0.17%
Plumbing	0.50%	0.52%	0.52%	0.51%	0.50%	0.48%
Sporting Gear and Accessories	0.14%	0.15%	0.15%	0.14%	0.14%	0.13%
Storage and Organization	0.16%	0.17%	0.17%	0.16%	0.16%	0.16%
Total	**7.97%**	**8.43%**	**8.54%**	**8.41%**	**8.28%**	**7.99%**

Source: Euromonitor estimates from trade interviews and Secondary Studies

Direct sales of electrical appliances and housewares to customers have the highest sales value in the hardware and home improvement products sector, at SAR 5.7 billion for electrical appliances and SAR 4.0 billion for housewares in 2013G. Electrical Appliances have high prices per unit, giving them a leading position in terms of sales value. Housewares, on the other hand, have lower per unit prices but are purchased more frequently.

Sales of electrical appliances and furniture grew at the highest rates between 2008G and 2013G, rising by a CAGR of 5.9% for electrical appliances and 5.1% for furniture. Both categories are mainly driven by growth in the number of households in Saudi Arabia and latest innovations in this area. More specifically, the furniture market is witnessing a shift in consumer preferences among young individuals towards modern designs. As a result, some households are changing their furniture accordingly, causing a growth in the category. The replacement cycle of outdoor products (outdoor living, lawn and garden and outdoor lighting products) is relatively short, due to the hot weather in Saudi Arabia, especially in the summer, pushing consumers to consistently replace these products and leads to sustained growth in the outdoor products market.

Due to the growing retailing infrastructure specialized in hardware and home improvement in the Kingdom in terms of internal design, area, contemporary offerings and exposure to a variety of products and brands, consumers' shopping experience has improved and consumers have started spending more time shopping and consider it a form of entertainment, thereby increasing the total market size.

3.5.3 Categories

3.5.3.1 Electrical Appliances

Sales of electrical appliances, which mainly include home and kitchen appliances, were around SAR 5.7 billion in 2013G. Home appliances is the largest contributor to the electrical appliances category in terms of value, accounting for around 78% in 2013G. The key selling products in the home appliances subcategory are refrigerators, washing machines, air conditioners and ovens, which have a household penetration rate of 76%, 75%, 99%, and 99% respectively. Home appliances have a long replacement cycle, varying from 8-15 years due to the nature of these appliances and their relatively high prices.

Kitchen appliances, such as blenders and toasters, are the largest contributor to the electrical appliances category in terms of volume, with a share of around 83.0% of the total quantities of electrical appliances sold in 2013G. Sales of kitchen appliances are mainly driven by the relatively low average price of such units compared to the home appliance subcategory as well as by new product innovations in this subcategory. The average price of kitchen appliances varies from SAR 50 to SAR 1,000 depending on the product and brand specifications. Product innovation in kitchen appliances is shifting towards more environmentally-friendly and health-oriented products, such as power saving electrical appliances or oil-less fryers. Kitchen appliances have a lower household penetration than home appliances. The kitchen appliances subcategory is vast and it has a shorter lifespan at around 1-5 years.

The following table shows the value of the electrical appliances market including home appliances and kitchen appliances:

Table 3.7: Overview of the size of the electrical appliances market period 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Home appliances	3,351.5	3,569.4	3,801.4	4,048.5	4,311.6	4,492.7	6.0%
Kitchen appliances	955.1	1,012.4	1,073.2	1,137.6	1,205.8	1,248.0	5.5%
Electrical appliances	**4,306.7**	**4,581.8**	**4,874.6**	**5,186.1**	**5,517.5**	**5,740.7**	**5.9%**

Source: Euromonitor estimates from trade interviews and Secondary Studies

Growth of electrical appliances sales compared to its historical rates is expected to slow to a CAGR of 4.2% over 2013G-2018G, mainly due to decreasing unit prices. Efforts to address the housing shortage and increasing household numbers are the key factors for the growth of sales in this category. Competition from Chinese brands and private labels (please see Section 3.2, "Definitions") is driving down average unit prices for electrical appliances. The key sales channels for electrical appliances are specialized electronics and appliances stores. These outlets offer a variety of brands and models under one roof.

The value of home appliances sales, which stood at around SAR 4,492.7 million in 2013G is expected to grow by a CAGR of 4.2% over the 2013G-2018G period, while kitchen appliances sales, which totaled around SAR 1,248 million in 2013G, are expected to witness slower growth of around 4% in 2013G-2018G.

3.5.3.2 Automotive

Saudi Arabia has the second highest number of passenger cars in use in the Middle East after Iran. In 2013G, there were around 10.6 million passenger cars in use in Saudi Arabia. Cars are the main method of transportation in Saudi Arabia, mainly due to low petrol prices, a well-developed road network and the ease of owning a vehicle through car loans or rent to own schemes. New car registrations saw rapid growth of 12.3% per year over 2008G-2013G, driven by demand for cars among the young population (age 18-35), who make up the majority of the population.

Car accessorizing is important among young consumers. The car accessories subcategory offers more than 300 various products for the interior and exterior of cars. Car accessories and car sprays are mainly Chinese products with little brand recognition. The most common products in this category are air fresheners, sand sprays, wiper blades, mobile phone car chargers and car care products. The unit price of these products is usually low, from SAR 3 to SAR 50 depending on the product. The car accessories subcategory is split among many known and unknown brands. These products are sold through various channels including hypermarkets, petrol stations, electronics stores and specialized accessories stores.

The automotive market in Saudi Arabia was estimated at around SAR 286.1 million in 2013G. The market is expected to grow by around 5.2% annually in 2013G-2018G, at a slightly faster pace than 2008G-2013G, which recorded a growth of 5.0% annually. Growth will be driven by the increasing number of cars. However, better specifications and options for new cars are eliminating the need for some accessories, such as mobile phone car chargers and FM transmitters, which have become built-in accessories in new car models.

Table 3.8: Historic and current size of the automotive market (value), 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Accessories	138.8	145.8	153.1	160.7	168.8	177.5	5.0%
Car sprays	84.9	89.2	93.6	98.3	103.2	108.6	5.0%
Automotive	**223.8**	**235.0**	**246.7**	**259.0**	**272.0**	**286.1**	**5.0%**

Source: Euromonitor estimates from trade interviews and Secondary Studies

The size of the accessories subcategory was estimated at around SAR 177.5 million in 2013G, accounting for around 62% of the total value of automotive sales in that year. This is mainly due to the wide variety of products in the accessories subcategory and the fact that the cost of these products is higher than car sprays. Car spray sales were estimated to total around SAR108.6 million in 2013G, contributing the remaining 38% of the total value of accessories sales in the same year.

3.5.3.3 Bed and Bath

The Bed and bath category in Saudi Arabia was estimated at around SAR 2.5 billion in 2013G. This category is expected to witness a CAGR of 4.5% over the 2013G-2018G forecast period, which is similar to the growth rate witnessed in the 2008G-2013G period, when a CAGR of 4.4% was recorded. New designs and the increasing number of households are key drivers for the growth in value witnessed by this category.

Bed and bath products consist mainly of sofa covers, pillows and duvets. Duvets and pillows have a penetration of around 99% of all households because these are necessity products required in every home, while sofa covers had a lower penetration rate of around 43% of all households. It must be noted that the sofa covers available might not fit all sofa designs and sizes available in the market. In addition, newer sofa designs offer washable covers; hence consumers no longer need to purchase an external cover to protect their sofas. Bed and bath products are sold through specialty furniture stores as well as hypermarkets and small independent stores, which offer a price around 20-30% lower than chain outlets as they offer lower quality products. There is a wide variation in the pricing of bed and bath products, with prices ranging from SAR 20 to SAR 900 depending on the retailer and quality of the product.

Table 3.9: Historic and current size of the bed and bath market (value), 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Duvets	943.4	985.8	1,030.2	1,076.6	1,125.0	1,176.8	4.5%
Pillows	855.3	893.8	934.0	976.1	1,020.0	1,066.9	4.5%
Sofa covers	261.4	270.6	280.1	289.9	300.0	311.4	3.6%
Bed and Bath	**2,060.1**	**2,150.2**	**2,244.3**	**2,342.5**	**2,445.0**	**2,555.1**	**4.4%**

Source: Euromonitor estimates from trade interviews and Company research

Duvets are the largest subcategory within bed and bath, with a sales value estimated at around SAR 1.2 billion in 2013G. This value represents around 46% of the total bed and bath sales, and is mainly due to their high unit price compared to other bed and bath subcategories. Pillows were the second highest subcategory at around 41% of all sales in 2013G, which were SAR 1.1 billion, due to the high volume of sales of these products. Although pillows are cheaper than duvets, the ratio of pillows is four times that of duvets. Sofa covers recorded far lower sales of SAR 311.4 million in 2013G, because of their low household penetration compared to other bed and bath products.

3.5.3.4 Housewares

The housewares category includes three main subcategories: cleaning accessories, dining and kitchenware and laundry accessories. Cleaning accessories have a shorter product replacement cycle than dining and kitchenware and laundry accessories. Cleaning and laundry accessories are mainly purchased in hypermarkets/supermarkets along with other home groceries while dining and kitchenware products are mainly purchased from specialty furniture stores, hypermarkets and hardware stores. Housewares products are usually purchased along with other household needs.

The housewares market in Saudi Arabia was estimated at around SAR 4.0 billion in 2013G. The market is expected to grow by a CAGR of 4.5% over the 2013G-2018G forecast period, up from a CAGR of 3.9% between 2008G-2013G. Dining and kitchenware was the largest subcategory in terms of the volume of sales, with estimated sales of SAR 2.3 billion in 2013G contributing 57.7% of the category's total value. This is mainly driven by the higher average unit price compared to the two other subcategories. Laundry accessories was the second largest subcategory with around 36.5% of all sales, which were SAR 1.5 billion in 2013G.

Table 3.10: Historic and current size of the housewares market (value), 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Cleaning accessories	177.0	188.2	200.0	212.6	226.0	232.8	5.6%
Dining and kitchenware	2,078.7	2,120.2	2,162.6	2,205.9	2,250.0	2,317.5	2.2%
Laundry accessories	1,064.8	1,144.7	1,230.5	1,322.8	1,422.0	1,467.5	6.6%
Housewares	**3,320.4**	**3,453.0**	**3,593.1**	**3,741.3**	**3,898.0**	**4,017.8**	**3.9%**

Source: Euromonitor estimates from trade interviews and Company research

3.5.3.5 Lawn and Garden

Studies indicate that Saudi Arabia had around 3.2 million villas in 2013G. Villa occupants are the main consumers of lawn and garden products because most villas have gardens and green areas. However, some gardens, such as those in compounds, are managed by specialized gardening companies. Around 90% of all lawn and garden products are sold through the retail stores. The lawn and garden category mainly consists of garden tools and power equipment.

Key products within the power equipment subcategory include lawn mowers, trimmers and blowers. The average replacement rate for power equipment products is 3-7 years depending on the product and its quality. The price range for power equipment varies from SAR 500 and SAR 4,000. For most products, branding is not an important selection criterion. Salesperson's suggestions influence the decision-making process for consumers purchasing such products as they trust the recommendations of professionals.

Key products within the garden tools subcategory include hoes, shovels and forks. The average replacement rate for garden tools is 2-5 years depending on the product and quality. Tool prices vary from SAR 20 to SAR 500. Selection criteria is highly related to price and quality.

The lawn and garden category in Saudi Arabia was estimated at around SAR 430.3 million in 2013G. The value of sales is expected to rise by a CAGR of around 2.5% over the 2013G-2018G forecast period, which is the same rate as that recorded over 2008G-2013G. Growth was restricted by the number of households living in apartments, which is growing faster than those living in villas. Power equipment was the largest subcategory, with estimated sales of SAR 399.1 million in 2013G contributing 92.7% of the category's total value in that year, mainly due to their high unit price compared to garden tools, which was estimated at around SAR 31.2 million in 2013G.

Table 3.11: Historic and current size of the lawn and garden market, 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Garden tools	26.9	27.7	28.6	29.4	30.3	31.2	3.0%
Power equipment	352.7	361.6	370.6	379.9	389.4	399.1	2.5%
Lawn and garden	**379.7**	**389.3**	**399.2**	**409.3**	**419.7**	**430.3**	**2.5%**

Source: Euromonitor estimates from trade interviews and Company research

3.5.3.6 Lighting

The lighting category consists of ceiling lighting, outdoor lighting and solar lighting. Lighting products are mainly sold through the wholesale sector, with around 70% of lighting products sold to companies involved in housing construction. As such, the growing number of construction projects aiming to fill the housing gap is a key driver of growth in the lighting category. Sales through B2C channels are mainly lighting products that are easily installed and do not require a complicated wiring process or sales to contractors working on small projects that require minimal quantities. Lighting products are mainly sold in specialty furniture and hardware stores in addition to small independent lighting retailers, which are widely available across Saudi Arabia.

The lighting market in Saudi Arabia was estimated at around SAR 360 million in 2013G. The market is expected to witness faster growth, with a CAGR of around 5.8% over the 2013G-2018G forecast period. This is higher than the CAGR of 5% recorded during the 2008G-2013G period, mainly due to the increasing number of households and growing demand for decorative lighting products. Ceiling lighting is the largest subcategory, estimated at around SAR 294.6 million in 2013G, accounting for 81.8% of the total value of sales in this category. This is mainly due to the high unit price of these products compared to other lighting subcategories.

Table 3.12: Historic and current size of lighting market (value), 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Ceiling lighting	228.7	240.1	252.1	264.7	278	294.6	5.2%
Outdoor lighting	30.7	31.7	32.8	34	35.2	36.6	3.6%
Solar lighting	22.3	23.4	24.6	25.8	27.1	28.7	5.2%
Lighting	**281.6**	**295.2**	**309.5**	**324.5**	**340.2**	**360**	**5%**

Source: Euromonitor estimates from trade interviews and Company research

3.5.3.7 Outdoor Living

The outdoor living category consists of grills, outdoor furniture, outdoor games and temporary swimming pools. There is a seasonal demand for outdoor living products based on the weather conditions in Saudi Arabia. Grills, outdoor furniture and outdoor games product sales peak in the winter season when consumers spend more time outdoors, while sales for such products decrease in the summer and retailers offer discounts to attract customers. By contrast, temporary pools are more in demand in the summer when the weather is hot. They are mainly used by villa occupants as they require a large area to be installed. Outdoor living products are mainly sold through specialty furniture and hardware stores in addition to hypermarkets and independent furniture retailers.

The outdoor living market in Saudi Arabia was estimated at around SAR 354.2 million in 2013G. The market is expected to witness more dynamic growth, with a CAGR of around 3.7% over the 2013G-2018G forecast period. This is slightly faster than the historic CAGR of 3.4% recorded over the 2008G-2013G period due to the growing number of villas, consumer desire for change and the increasing average unit price of this category. Outdoor furniture is the largest subcategory estimated at around SAR159 million in 2013G, accounting for around 44.9% of the total value of sales in this category. Outdoor games sales were valued at around SAR 110.9 million in the same year, contributing around 31.3% of the total sales in this category.

Table 3.13: Historic and current size of outdoor living market (value), 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Grills	27.8	28.6	29.5	30.4	31.3	32.2	3%
Outdoor furniture	130	135.2	140.6	146.3	152.1	159	4.1%
Outdoor games	95.7	98.5	101.5	104.5	107.7	110.9	3%
Pools	45.8	47	48.2	49.4	50.6	52.1	2.6%
Outdoor living	**299.3**	**309.4**	**319.8**	**330.6**	**341.7**	**354.2**	**3.4%**

Source: Euromonitor estimates from trade interviews and Company research

3.5.3.8 Building Materials (Flooring)

According to the market study definitions, the building materials category consists of wood (parquet) and rubber (vinyl) floor covering. Consumers are opting for floor covering products over other solutions such as carpet, since parquet and vinyl floors are more modern and easier to clean, as well as more affordable for a large segment of consumers. Demand for these products is driven by the construction of new houses (by small contractors) and renovations or extensions of existing houses. The product replacement cycle is around 10-20 years as consumers do not replace these products regularly once installed. Brand is not important for such products and the small retailers that are the main channel for the sale of these products offer competitive prices in addition to installation services.

The building materials market in Saudi Arabia was estimated at around SAR 364.3 million in 2013G. The market is expected to witness more dynamic growth with a CAGR of around 5% annually in the forecast period 2008G-2013G, compared to the CAGR of 4.6% seen over 2008G-2013G.

Table 3.14: Historic and current size of building materials market (value), 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Floor covering	290.9	304	317.7	332	346.9	364.3	4.6%
Building materials	**290.9**	**304**	**317.7**	**332**	**346.9**	**364.3**	**4.6%**

Source: Euromonitor estimates from trade interviews and Company research

3.5.3.9 Paint Supplies

Paint supplies are made up of two categories. The first category includes subcategories that are typically used for house painting, such as cleaners, removers, solvents, brushes and trays. As a result, the main driver for these subcategories is painting jobs due to consumer desire for change and keeping up with new innovations in this area. House paint and supplies are typically sold through B2C stores either for painting new homes or repainting existing ones. Sales of paint-related products are partly seasonal as some consumers change the color of their houses based on the season of the year such as summer or winter although not necessarily every season, and this is partly related to changes in modern decor. Typically, contractors are hired by consumers to paint houses as it is an activity that requires specific skills. As a result, cleaners, removers, solvents, brushes and trays are typically purchased by contractors in much higher quantities than those purchased by households. The second category typically includes the subcategories for adhesives, ladders and scaffolding, which are generic products that can be used for different types of tasks. Because of their multi-purpose usage, these products are more widely available in homes in Saudi Arabia, as they are purchased by both professional contractors and households. Sales of adhesives, ladders and scaffolding do not follow a seasonal pattern as demand is also driven by general home improvement tasks.

Paint supply products are sold through three main channels. Paint shops sell complementary products used for painting activities, such as cleaners, removers and solvents, while hardware retailers are a major channel for adhesives, ladders and scaffolding. Small independent shops are widely available in Saudi Arabia and their product portfolio typically covers adhesives, brushes, ladders and scaffolding.

The B2C paint supplies category was estimated to be SAR 379.9 million in 2013G and grew at a CAGR of 2.7% in the period 2008G-2013G. The category leader in terms of the value of sales was ladders and scaffolding, which accounted for 55.1% of the sales in 2013G based on sales of SAR 209.6 million. Adhesives were the second largest subcategory with sales of around SAR 112.6 million in 2013G. The paint supplies category is expected to record a similar growth at a CAGR of 2.4% over the 2013G-2018G forecast period.

Table 3.15: Historic and current size of the paint supplies market (value), 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Adhesives	97.2	100.1	103.1	106.2	109.4	112.6	3.0%
Brushes	2.9	2.9	3	3.1	3.2	3.3	2.9%
Cleaners	11.8	12.3	12.7	13.1	13.6	14	3.4%
Ladders and scaffolding	186.1	190.8	195.6	200.4	205.5	209.6	2.4%
Removers and solvents	27.6	28.6	29.6	30.6	31.7	32.7	3.4%
Rollers and trays	6.7	6.9	7.1	7.3	7.5	7.7	2.9%
Paint supplies	**332.3**	**341.5**	**351**	**360.8**	**370.8**	**379.9**	**2.7%**

Source: Euromonitor estimates from trade interviews and Company research

3.5.3.10 Sporting Gear and Accessories

Saudi Arabia has a young population, with 48.2% of its population under 30 years of age in 2013G. This demographic factor underlies the Saudi population's high interest in sports, especially football.

Obesity is a major health risk in Saudi Arabia. In 2007G, the World Health Organization reported that 68.8% of the adult population of Saudi Arabia was overweight or obese. In order to deal with rising health concerns, the Saudi government is increasing its focus on the healthcare sector. As a result of increased health awareness, consumers are becoming more attentive to their lifestyle and are adopting a healthier way of life. This trend is one of the main drivers of the sporting gear and accessories category. Recently, there has been a trend for villa owners to allocate a special room in their home for gym and fitness equipment, and install outdoor sports equipment, such as basketball hoops, in the garden.

Indoor fitness equipment is popular in Saudi Arabia as consumers prefer not to exercise outdoors during the summer, because of the hot weather. Furthermore, due to cultural traditions in Saudi Arabia, most females exercise at home.

Sporting gear and accessories includes fitness equipment and outdoor sports. Sales in this category were SAR 291.6 million in 2013G, having grown at a CAGR of 3.2% from 2008G to 2013G. Outdoor sports equipment accounted for the largest share of sales in this category at 71.1%, based on sales of SAR 207.3 million in 2013G. Fitness equipment, with sales of SAR 84.2 million, accounted for 28.9% of the value of this category. The best-selling product families in outdoor sports are children's bicycles and treadmills, while running equipment is the most popular in fitness equipment. Sporting gear and accessories is expected to witness a CAGR of 3.8% over the forecast period, driven by growing health awareness in Saudi Arabia.

Table 3.16: Historic and current size of sporting gear and accessories market (value), 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Fitness equipment	72.1	74.3	76.5	78.8	81.2	84.2	3.2%
Outdoor sports	177.5	182.8	188.3	193.9	199.7	207.3	3.2%
Sporting gear and accessories	**249.6**	**257.1**	**264.8**	**272.7**	**280.9**	**291.6**	**3.2%**

Source: Euromonitor estimates from trade interviews and Company research

3.5.3.11 Indoor Furniture

The indoor furniture category in this study includes only safes and home office furniture. Home office furniture is common in Saudi Arabia due to the prevalence of villas. Home safes are a less common product as their use is more restricted and can be substituted by other products, such as lockable chest of drawers. Furthermore, as the average unit price of safes is less than that of office furniture, the value of sales of the latter are considerably higher.

The indoor furniture category in Saudi Arabia is driven by office furniture, which contributed 96.9% of the value of indoor furniture sales in 2013G, at SAR192.9 million. Safes, by contrast, make up just 3.1% of indoor furniture sales at SAR 6.1 million. Office desks is the leading product family in terms of the value of sales of this subcategory. Indoor furniture is expected to grow at a CAGR of 5.5% during the 2013G-2018G forecast period. Growth will be driven by office furniture, which is expected to grow in line with the development of villas and large apartments in Saudi Arabia that have more space for a home office. Safes are expected to see a CAGR of 4.5% over 2013G-2018G.

Table 3.17: Historic and current size of indoor furniture market (value), 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Office furniture	149.9	157.5	165.5	174	182.9	192.9	5.2%
Safes	5	5.2	5.4	5.6	5.8	6.1	4.1%
Furniture	**154.9**	**162.7**	**170.9**	**179.6**	**188.7**	**199**	**5.1%**

Source: Euromonitor estimates from trade interviews and Company research

3.5.3.12 Plumbing

The plumbing category includes the following subcategories: bathroom vanities and cabinets, bathroom and kitchen sinks and shower enclosures. Saudi Arabia has a high penetration of villas and spacious apartments (that have more than three bathrooms and in some cases more than one kitchen) leading to a constant growth in plumbing in general. There has been a shift towards smaller apartments due to the housing shortage, which has been somewhat offset by an increase in the number of relatively smaller housing units, so the overall demand for plumbing has continued to grow. However, B2B sales account for 90% of plumbing sales, as these products are primarily installed when houses are first built. The plumbing B2C market is limited to individual needs to replace or upgrade plumbing when homes are renovated.

The plumbing B2C market size in this study was SAR 1.0 billion in 2013G. Bathroom vanities and cabinets constituted 95.8% of the total value of this category in that year. The category has been growing at a CAGR of 3.9% over 2008G-2013G. This growth is expected to slow to a CAGR of 3.5% over the 2008G-2013G forecast period. The market size of the category is estimated to reach SAR1.2 billion by 2018G.

Table 3.18: Historic and current size of plumbing market (value), 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Bathroom vanities and cabinets	827.8	860.9	895.3	931.2	968.4	1,002.3	3.9%
Bathroom and kitchen sinks	26.1	27.1	28.2	29.3	30.5	31.6	3.9%
Shower enclosures	10.3	10.7	11	11.4	11.8	12.2	3.4%
Plumbing supplies and fixtures	**864.2**	**898.7**	**934.6**	**971.9**	**1,010.7**	**1,046**	**3.9%**

Source: Euromonitor estimates from trade interviews and Company research

3.5.3.13 Storage and Organization

The storage and organization category includes the following subcategories: laundry storage, baskets and shelves. These subcategories are made up of product families that are widely present in Saudi households since they are products that are affordable to a wide range of Saudi society. Replacement rates of laundry storage products and baskets are low as consumers tend to replace them only when they wear out, whereas shelves are likely to be replaced when changing the interior decoration or purchased when moving to new houses. Storage and organization products are mainly sold through hypermarkets (laundry storage and baskets) and hardware and furniture stores (shelves).

The value of sales in the storage and organization category were close to SAR 337.6 million in 2013G, having grown by a CAGR of 4% in the period between 2008G and 2013G. Leading the category in terms of value was shelves with sales of SAR 179.1 million accounting for 53.1% of total sales. This was mainly due to the relatively higher unit price of shelves compared to other subcategories. Laundry storage was the smallest subcategory, with sales of SAR 31.7 million constituting 9.4% of the value of sales in this category. This was partly due to their lower unit price compared to shelves, but also to their relatively low sales volume compared to baskets. The use of laundry storage products in households is limited to laundry activities, whereas baskets are used to store different types of items and thus there tends to be a higher number of baskets per household. The storage and organization category is expected to maintain a CAGR of 4.1% over the 2013G-2018G forecast period, to reach a value of SAR 411.7 million in 2018G.

Table 3.19: Historic and current size of storage and organisation market (value), 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Baskets	104.2	108.3	112.7	117.2	121.9	126.7	4%
Laundry storage	26	27.1	28.2	29.3	30.5	31.7	4%
Shelves	147.1	153	159.1	165.5	172.1	179.1	4%
Storage and organisation	**277.3**	**288.4**	**299.9**	**311.9**	**324.4**	**337.6**	**4%**

Source: Euromonitor estimates from trade interviews and Company research

3.5.3.14 DIY Tools

The DIY Tools category is made up of hand and power tools. Both subcategories are essential for home improvement activities. The two main consumers of DIY tools are households who perform home improvement activities themselves (consumers) and small contracting companies (professionals) that are hired by residents to perform the required maintenance. Hand tools are common in Saudi homes as they are used for general home maintenance activities and do not require a specific skill set to operate.

Professionals tend to look for quality and performance when purchasing DIY tools to avoid any disruptions in their work and look for products with good brand recognition. On the other hand, consumers are likely to favor lower prices over brand as the home improvement activities conducted by them are rarely complicated.

The value of DIY tools sales was SAR 685.2 million in 2013G, having grown by a CAGR of 4.4% from 2008G until 2013G. Power tools is the biggest subcategory with sales of SAR 471.1 million in 2013G, accounting for 68.8% of total sales in this category for that year. The value of hand tools sales was SAR 214.1 million in 2013G, accounting for 31.2% of total sales in the category. The higher sales of power tools compared to hand tools is mainly due to the fact that the unit price of power tools is higher than that of hand tools. The growth in demand for these products is also due to frequent product innovations in power tools to meet demand for products that are more convenient and suitable to work requirements. The DIY tools market is expected to grow at a CAGR of 4.5% during the forecast period, driven by tendency among young people to perform simple house maintenance themselves. DIY tools sales are expected to reach SAR 851.9 million in 2018G.

Table 3.20: Historic and current size of DIY tools market (value), 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Hand tools	167.8	176.1	185	194.2	203.9	214.1	5%
Power tools	383.5	399.6	416.4	433.9	452.1	471.1	4.2%
DIV tools	**551.2**	**575.7**	**601.3**	**628.1**	**656**	**685.2**	**4.4%**

Source: Euromonitor estimates from trade interviews and Company research

3.5.3.15 Hardware

The hardware category includes the following subcategories: locks, doors and windows, door handles, fasteners and nails and baby and child safety. While locks and baby and child safety products are mainly purchased by end consumers, doors and windows, door handles, fasteners and nails are mostly purchased by contractors who are commissioned for either house renovation or residential construction projects. Hence, the main driver for the hardware category is home renovation projects. In 2013G, the Kingdom issued government regulations on illegal workers that were working in construction and renovation, which led to a reduction in the pace of the growth of this category due to the reduction of the number of workers in this field.

Price and quality are the main factors influencing purchasing decisions for hardware products. On the one hand, these are common products that have minimal design and aesthetic features and are mostly bought for their functionality. On the other, the replacement rate of doors, door handles and locks is low, so consumers tend to value quality in order to lengthen the lifetime of the product. The key retail channels for hardware are hardware and furniture retailers.

The market value of all hardware products was SAR 320.9 million in 2013G, mainly driven by sales of doors and windows, which contributed SAR 103.1 million or 32.1% of total hardware sales in that year. Fasteners and nails was the smallest category with sales of SAR 31.2 million in 2013G, mainly due to their low unit price. The hardware category grew by a CAGR of 3.2% in the period between 2008G and 2013G. It is expected to maintain a CAGR of 3.5% between 2013G and 2018G, when total hardware sales are estimated to reach SAR 381.3 million.

Table 3.21: Historic and current size of hardware market (value), 2008G-2013G

SAR million	2008G	2009G	2010G	2011G	2012G	2013G	CAGR 2008G-2013G
Baby and child safety	50.4	52.9	55.6	58.3	61.3	65	5.2%
Doors and windows	91.1	93.4	95.7	98.1	100.6	103.1	2.5%
Door handles	66.1	67.7	69.4	71.1	72.9	74.7	2.5%
Fasteners and nails	25.6	26.7	27.7	28.8	30	31.2	4%
Locks	40.4	41.6	42.9	44.2	45.5	46.9	3%
Hardware	**273.6**	**282.3**	**291.3**	**300.6**	**310.2**	**320.9**	**3.2%**

Source: Euromonitor estimates from trade interviews and Company research

3.6 Competitive Landscape

3.6.1 Overview

Hardware and home improvement retail products are available across a wide variety of channels depending on the category. For example, electrical appliances are mainly sold through specialty electronics stores and hypermarkets, while automotive product sales are quite fragmented, with many small independent stores, petrol stations and hypermarkets/supermarkets offering these products.

Positive growth in the hardware and home improvement retail market in Saudi Arabia will lead to increased competition. Therefore, the retailers name and brand will be vital in maintaining and developing their share of the market.

3.6.2 Competitive Environment

SACO provides a wide range of products including bed and bath, housewares, lighting, DIY tools, paint supplies, plumbing, hardware, storage and organization, building materials, automotive, lawn and garden, indoor furniture, outdoor living, electrical appliances and sporting gear and accessories.

This combination of products offered by SACO is unique and is not available at any other retailers in Saudi Arabia. SACO is perceived as a one stop destination for hardware and home improvement products. It also offers amenities for all family members, providing facilities such as children's play areas and cafes. SACO offers a large shopping area at each of its outlets. It has around 23 stores across 12 cities in Saudi Arabia, with an area ranging between 2,000-24,500 square meters each.

SACO offers value added services to its consumers such as an extensive listing of its products through its website so consumers can plan their requirements ahead of their visit. Other services offered include delivery and installation, a SACO warranty, which is in addition to the manufacturer's warranty. SACO also offers a SACO price guarantee which guarantees consumers a refund for the difference in price if they are able to find a lower price at another retailer as well as SACO My Rewards loyalty cards, which aim to grow its base of clients by rewarding the customers participating in this program.

SACO offers a wide range of brands including its own private label products. It is the authorized dealer for ACE Hardware products (please see Section 6.7.4, "Shares granted from an overseas supplier" and Section 4.5.1, "Suppliers"), among others. SACO is a key competitor in the field of lawn and garden and outdoor living products, offering a wide range of designs and exclusive brands. SACO is also a leading player in the area of hardware, storage and organization and building materials since it sells models that are not available at other retailers.

Due to the great diversity of the Company's products that cover many diverse sectors in Saudi Arabia, there are no competitors offering a similar combination of all of the products the Company offers. Thus the Company's competitive environment consists primarily of retail companies that compete with the Company in certain, but not all, categories of products.

Following is an overview of the Company's key competitors and the product categories in which they compete with the Company:

Table 3.22: Ranking of competing companies and categories

Rank	Competitors	Competitive Categories
1	eXtra	Electrical appliances
2	HyperPanda	Electrical appliances, storage and organisation, hardware, outdoor living, lighting, lawn and garden, housewares, bed and bath, sporting gear and accessories, automotive and DIY tools
3	IKEA	Bed and bath, furniture, storage and organisation, DIY tools, hardware, plumbing, paint supplies, lighting, outdoor living, building materials, lawn and garden and housewares
4	Home Center	Storage and organisation, hardware, plumbing, outdoor living, lighting, lawn and garden, housewares and bed and bath
5	U-Mark	Sporting gear and accessories
6	Al Sultan Gardens	Outdoor living and lawn and garden
7	Sport Ghornatah	Sporting gear and accessories

Source: Euromonitor estimates from trade interviews and Company research

eXtra

eXtra is one of the main electronics stores in Saudi Arabia with a wide range of electrical appliances and electronics products. eXtra offers consumers a variety of brands at various prices, from international brands to private label products, targeting all consumer segments. eXtra competes with SACO mainly in kitchen appliances, where SACO is more focused on fast moving, lower priced products that do not require a large selling space, such as blenders and toasters which are bought along with other hardware and home improvement needs. eXtra offers online shopping, with an extensive product list (other than electrical appliances) in 35 stores throughout Saudi Arabia.

HyperPanda

HyperPanda is the largest hypermarket chain in Saudi Arabia. The chain offers a wide product range including grocery and non-grocery products. Although grocery items are the main products sold by HyperPanda, HyperPanda also provides a wide range of electrical appliances and kitchen and home supplies that compete with SACO which provide all customer needs in one location.

Ikea

Ikea is one of SACO's key competitors in Saudi Arabia, offering bed and bath, furniture, storage and organization, DIY tools, hardware, plumbing, paint supplies, lighting, outdoor living, building materials, lawn and garden and housewares products. Ikea's product offerings are the most similar to SACO's range of products. However, Ikea's strength lies in home furnishings such as bedroom, living room, and dining room furniture, which are not categories offered by SACO. Ikea only offers Ikea brand products and operates in the Western, Eastern and Central Region in the Kingdom.

Home Center

Home Center has 25 stores throughout Saudi Arabia. These are a variety of standalone stores and stores located inside shopping malls. Home Center offers storage and organization, hardware, plumbing, outdoor living, lighting, lawn and garden, housewares and bed and bath products. Similar to Ikea, Home Center's main product focus is home furniture, which is not offered by SACO.

U-Mark

U-Mark specializes in selling 'As seen on TV' products, which mainly includes fitness equipment and kitchen appliances and consequently it is one of SACO's competitors. U-Mark has its own TV channel, U-Mark TV Shopping Channel, which promotes its products and offers a cash on delivery service. The company also sells products through its website which provides an exclusive product list with prices and special offers. The main products for sale are treadmills, home gyms, and exercise bikes. U-Mark has around 48 retail outlets spread across Saudi Arabia, mainly located in shopping malls. Their key selling point is focused on exclusive brands and free maintenance services.

Al Sultan Gardens

Al Sultan Gardens specializes in outdoor living and lawn and garden products and also imports plants from outside the Kingdom. The main brand of outdoor furniture sold by Al Sultan Gardens is Skyline. Their product portfolio focuses on offering new designs and models that are unique in Saudi Arabia. Al Sultan Garden operates seven stores located throughout Saudi Arabia in the Central, Western and Eastern Regions.

Sport Ghornatah

Sport Ghornatah is another key retailer in the sporting gear and accessories category. It mainly specializes in sportswear as well as fitness equipment and outdoor sports. Sport Ghornatah mainly offers the Lifegear brand of fitness equipment as well as its own local brand. Sport Ghornatah operates 31 outlets across Saudi Arabia and is present in all regions.

3.7 Market Share

The following table shows the estimated market share of SACO and its key competitors in the home improvement and hardware field, according to the product definitions set out in Section 3.2, "Definitions".

Table 3.23: Market share of SACO and its key competitors

SACO's key competitors	The 2013G market share in Home Improvement and Hardware products market in Saudi Arabia
eXtra	5.3%
SACO	5.0%
HyperPanda	3.7%
Ikea	2.9%
Home Center	0.7%
Others	82.5%

Source: Euromonitor estimates from trade interviews and Company research

Notes:

- Market share was calculated based on the estimates of each company in the categories included in the study according to the stated definitions (for more information, please see Section 3.2, "Definitions"). Market share was estimated based on Euromonitor estimates of the home improvement and hardware market size. As a result, market share does not necessarily represent the Company's total sales as the Company's sales could include other categories not included in the study.
- Sales data available in the annual reports of some companies has been used. However, these data do not show a detailed breakdown of the Company's sales for each category included in the study, so Euromonitor estimated the market share based on different sources of information such as retailers, wholesalers and distributors in order to obtain accurate results given the fragmented nature of the market.
- SACO sales have been estimated based on the audited data of SACO's sales and calculated as a share of Euromonitor's estimates on the size of the home improvement and hardware market.

4. The Company

4.1 Introduction

Saudi Company for Hardware (SACO) is a Saudi joint stock company pursuant to H.E the Minister of Commerce and Industry Resolution No. 178/Q dated 26/05/1432H (corresponding to 30/04/2011G) and Commercial Registration No. 1010056595 dated 26/02/1405H (corresponding to 19/11/1984G) with its registered address at Al Takhassusi Road in Riyadh, and its head office at Hind bint Utbah Street off Olayah Street in Riyadh. SACO was incorporated originally as a limited liability company with a share capital of ten million Saudi riyals (SAR 10,000,000). The founding partners were Al Hamidi Trading Establishment (50%), Abdullah Taha Bakhsh (25%) and Abdul Rahman Hassan Abbas Sharbatly (25%).

On 12/06/1411H (corresponding to 30/12/1990G), the Company's share capital was raised from ten million Saudi riyals (SAR 10,000,000) to sixteen million Saudi riyals (SAR 16,000,000) divided into sixteen thousand (16,000) shares with a nominal value of one thousand Saudi riyals (SAR 1,000) per share, by a capitalization of loans provided by the partners to the Company.

On 15/08/1418H (corresponding to 15/12/1997G), Al Hamidi Trading Establishment transferred all of its shares in the Company to Al Hamidi Contracting Establishment Company.

In 2007G, after the death of Abdullah Taha Baksh and transfer of his shares to his heirs, all heirs transferred their entire shares in the Company to Abrar International Holding Company (owned by the same heirs).

In 2008G, the partners in SACO agreed to lend the Company forty-three million, three hundred thirty-three thousand, three hundred thirty-four Saudi riyals (SAR 43,333,334) to finance the Company's business and its expansion into the retail market. In order to finance its portion of the loan, Al Hamidi Contracting Establishment Company sold 12.5% of its shares in the Company's shares, half of them to Abrar International Holding Company and the other half to Abdul Rahman Hassan Abbas Sharbatly. Al Hamidi Contracting Establishment Company's interest became 37.5% of the Company's total share capital, and the interest of each of Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly became 31.25% in the Company's share capital.

In 2008G, the partners in SACO agreed to grant Al Hamidi Contracting Establishment Company a portion of the Company's share capital to be calculated based on realized net income for the fiscal year ending 31/12/2009G. Such portion was to be granted provided that the realized net income was not less than SAR 20.19 million. On 10/03/1431H (corresponding to 24/02/2010G), after the Company achieved these goals, the portion of the share capital to be granted to Al Hamidi Contracting Establishment Company was set at 2.5% of the Company's share capital, representing a total of four hundred (400) shares. Both Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly agreed to grant Al Hamidi Contracting Establishment Company two hundred (200) shares each, representing 1.25% of the Company's share capital. Thereafter, Al Hamidi Contracting Establishment Company's interest became 40% of the Company's share capital, and each of Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly's interest became 30% of the Company's share capital.

Pursuant to a partners' resolution dated 23/03/1432H (corresponding to 24/02/2011G), the partners decided to convert the Company from a limited liability company into a closed joint stock company. Two hundred and forty (240) shares owned by Al Hamidi Contracting Establishment Company were transferred to Khalid Mohammed Abdulaziz Al Hamidi, Sameer Mohammed Abdulaziz Al Hamidi and Haytham Mohammed Abdulaziz Al Hamidi, with each owning eighty (80) shares representing 0.5% of the Company's share capital. Al Hamidi Contracting Establishment Company's total shares thus became 38.5% of the Company's share capital, with Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly each holding 30%.

The Company was converted into a closed joint stock company pursuant to H.E Minister of Commerce and Industry Resolution No. 178/Q dated 26/05/1432H (corresponding to 30/04/2011G). The Company's share capital was sixteen million Saudi riyals (SAR 16,000,000) and the interests were converted to shares with a nominal value of ten Saudi riyals (SAR 10) per share.

On 15/06/1432H (corresponding to 18/05/2011G), the Company's shareholders entered into an agreement with Al Hamidi Contracting Establishment Company documenting the shareholders acceptance of Al Hamidi Contracting Establishment Company receiving 15% of the Company's net income in consideration for managing the Company, noting that Al Hamidi Trading Establishment, which was succeeded by Al Hamidi Contracting Establishment Company, had received such consideration since 29/09/1986G. However, this agreement was terminated by a termination and settlement agreement dated 21/03/1435H (corresponding to 22/01/2014G), pursuant to which it was agreed that Al Hamidi Contracting Establishment Company would receive 9% of the Company's shares. Seventy-two thousand (72,000) shares (representing 4.5% of the total share capital) from the interests of each of Abdul Rahman Hassan Abbas Sharbatly and Abrar International Holding Company were transferred to Al Hamidi Contracting Establishment Company on 14/05/1435H (corresponding to 16/03/2014G). The interests of Al Hamidi

Contracting Establishment Company, Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly became 47.5%, 25.5% and 25.5% of the Company's share capital respectively. The interests of each of Khalid Mohammed Abdulaziz Al Hamidi, Sameer Mohammed Abdulaziz Al Hamidi and Haytham Mohammed Abdulaziz Al Hamidi remained 0.5% of the Company's share capital.

On 27/07/1435H (corresponding to 26/05/2014G), the Company's share capital was increased from sixteen million Saudi riyals (SAR 16,000,000) to two hundred forty million Saudi riyals (SAR 240,000,000) divided into twenty-four million (24,000,000) shares with a nominal value of ten Saudi riyals (SAR 10) per share, through capitalization of two hundred twenty-four million Saudi riyals (SAR 224,000,000) from the retained earnings account.

SACO operates in the housewares, office supplies, hand tools and building supplies retail and wholesale sector. The Company has registered its branches with the Ministry of Commerce and Industry in the Kingdom.

As at 31 December 2014G, the Company had 2,035 employees, 694 of whom were Saudis. The Company was classified within the "high green" Nitaqat category, having achieved a Saudization rate of 34.1% of the Company's labor force.

The following table shows the Company's current Shareholders before and after the Offering as well as the percentage of the Company's capital they own:

Table 4.1: The Company's Shareholders pre- and post-Offering

Shareholders	Pre-Offering			Post-Offering		
	No. of Shares*	Percentage	Share Capital (SAR)	No. of Shares*	Percentage	Share Capital (SAR)
Al Hamidi Contracting Establishment Company	11,400,000	47.5%	114,000,000	7,980,000	33.25%	79,800,000
Abrar International Holding Company	6,120,000	25.5%	61,200,000	4,284,000	17.85%	42,840,000
Abdul Rahman Hassan Abbas Sharbatly	6,120,000	25.5%	61,200,000	4,284,000	17.85%	42,840,000
Khalid Mohammed Abdulaziz Al Hamidi	120,000	0.5%	1,200,000	84,000	0.35%	840,000
Sameer Mohammed Abdulaziz Al Hamidi	120,000	0.5%	1,200,000	84,000	0.35%	840,000
Haytham Mohammed Abdulaziz Al Hamidi	120,000	0.5%	1,200,000	84,000	0.35%	840,000
Public	-	-	-	7,200,000	30%	72,000,000
Total	**24,000,000**	**100%**	**240,000,000**	**24,000,000**	**100%**	**240,000,000**

Source: The Company

*These shares include the qualification Shares listed in Table A.1, "Board of Directors".

4.2 Evolution of the Company's share capital

Changes to the Company's share capital and shareholders' ownership took place as follows:

1. The Company was established in Riyadh as a Saudi limited liability company with Commercial Registration No. 1010056595 dated 26/02/1405H (corresponding to 19/11/1984G), with a share capital of ten million Saudi riyals (SAR 10,000,000).

   Upon establishment, shares were allocated as follows:

Table 4.2: The Company's Shareholders upon establishment

Shareholder's Name	Ownership (%)	Share Capital (SAR)
Al Hamidi Trading Establishment	50%	5,000,000
Abdullah Taha Baksh	25%	2,500,000
Abdul Rahman Hassan Abbas Sharbatly	25%	2,500,000
Total	**100%**	**10,000,000**

Source: The Company

2. On 12/06/1411H (corresponding to 30/12/1990G), the Company's share capital was increased from ten million Saudi riyals (SAR 10,000,000) to sixteen million Saudi riyals (SAR 16,000,000) divided into sixteen thousand (16,000) shares with a nominal value of one thousand Saudi riyals (SAR 1,000) per share, by capitalization of loans provided by the partners to the Company.
3. On 15/08/1418H (corresponding to 15/12/1997G) Al Hamidi Trading Establishment transferred all of its shares in the Company to Al Hamidi Contracting Establishment Company.
4. In 2007G, after the death of Abdullah Taha Baksh and the transfer of his shares to his heirs, the heirs transferred all of their shares in the Company to Abrar International Holding Company (owned by the same heirs).
5. In 2008G, the partners in SACO agreed to lend the Company forty-three million, three hundred thirty-three thousand, three hundred thirty-four Saudi riyals (SAR 43,333,334) to finance the Company's businesses and its expansion into the retail market. In order to finance its portion of the loan, Al Hamidi Contracting Establishment Company sold 12.5% of the Company's shares, half of them to Abrar International Holding Company and the other half to Abdul Rahman Hassan Abbas Sharbatly. Al Hamidi Contracting Establishment Company's interest became 37.5% of the Company's total share capital, and each of Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly's interests became 31.25% of the Company's share capital.
6. In 2008G, the partners in SACO agreed to grant Al Hamidi Contracting Establishment Company a portion of the Company's share capital calculated on the basis of realized net income for the fiscal year ended 31/12/2009G. Such portion was to be granted provided that the net income was not less than SAR 20.19 million. On 10/03/1431H (corresponding to 24/02/2010G), after the Company achieved these goals, the portion of the share capital was set at 2.5% of the Company's share capital, representing a total of four hundred (400) shares. Both Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly agreed to grant Al Hamidi Contracting Establishment Company two hundred (200) shares each representing 1.25% of the Company's share capital.
7. Pursuant to a partners' resolution dated 23/03/1432H (corresponding to 24/02/2011G), the partners decided to convert the Company from a limited liability company into a closed joint stock company. Two hundred and forty (240) shares owned by Al Hamidi Contracting Establishment Company were transferred to Khalid Mohammed Abdulaziz Al Hamidi, Sameer Mohammed Abdulaziz Al Hamidi and Haytham Mohammed Abdulaziz Al Hamidi, with each owning eighty (80) shares representing 0.5% of the Company's share capital. Al Hamidi Contracting Establishment Company's total shares thus became 38.5% of the Company's share capital, with Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly each holding 30%.
8. The Company was converted into a closed joint stock company pursuant to H.E the Minister of Commerce and Industry Resolution No. 178/Q dated 26/05/1432H (corresponding to 30/04/2011G). The Company's share capital was sixteen million Saudi riyals (SAR 16,000,000) and the interests were converted to shares with a nominal value of ten Saudi riyals (SAR 10) per share.

The Company's share capital structure after conversion in 2011G was:

Table 4.3: The Company's Shareholders after conversion

Shareholder's Name	Direct Holding (%)	Share Capital (SAR)
Al Hamidi Contracting Establishment Company	38.5%	6,160,000
Abrar International Holding Company	30.0%	4,800,000
Abdul Rahman Hassan Abbas Sharbatly	30.0%	4,800,000
Khalid Mohammed Abdulaziz Al Hamidi	0.5%	80,000
Sameer Mohammed Abdulaziz Al Hamidi	0.5%	80,000
Haytham Mohammed Abdulaziz Al Hamidi	0.5%	80,000
Total	**100%**	**16,000,000**

Source: The Company

9. On 15/06/1432H (corresponding to 18/05/2011G), the Company's shareholders entered into an agreement with Al Hamidi Contracting Establishment Company establishing the shareholders' acceptance of Al Hamidi Contracting Establishment Company receiving 15% of the Company's net income in consideration for managing the Company, noting that Al Hamidi Trading Establishment, which was succeeded by Al Hamidi Contracting Establishment Company, had received such consideration since 29/09/1986G. However, this agreement was terminated by a termination and settlement agreement dated 21/03/1435H (corresponding to 22/01/2014G), pursuant to which it was agreed that Al Hamidi Contracting Establishment Company would receive 9% of the Company's shares. Seventy-two thousand (72,000) shares (representing 4.5% of the total share capital) from the interests of each of Abdul Rahman Hassan Abbas Sharbatly and Abrar International Holding Company's interests were transferred to Al Hamidi Contracting Establishment Company on 14/05/1435H (corresponding to 16/03/2014G).

   After the shares were assigned as described above, the percentage ownership of the Selling Shareholders was:

Table 4.4: Ownership percentages of the Company's Selling Shareholders after the assignment of shares

Shareholder's Name	Direct Holding (%)	Share Capital (SAR)
Al Hamidi Contracting Establishment Company	47.5%	7,600,000
Abrar International Holding Company	25.5%	4,080,000
Abdul Rahman Hassan Abbas Sharbatly	25.5%	4,080,000
Khalid Mohammed Abdulaziz Al Hamidi	0.5%	80,000
Sameer Mohammed Abdulaziz Al Hamidi	0.5%	80,000
Haytham Mohammed Abdulaziz Al Hamidi	0.5%	80,000
Total	**100.0%**	**16,000,000**

Source: The Company

10. On 27/07/1435H (corresponding to 26/05/2014G), the Company's share capital was increased from sixteen million Saudi riyals (SAR 16,000,000) to two hundred forty million Saudi riyals (SAR 240,000,000) divided into twenty-four million (24,000,000) shares with a nominal value of ten Saudi riyals (SAR 10) per share, through capitalization of two hundred twenty-four million Saudi riyals (SAR 224,000,000) from the retained earnings account.

    As a result, the current ownership percentage of the Company's Selling Shareholders is:

Table 4.5: Ownership percentages of the Company's Selling Shareholders

Shareholder's Name	Direct Holding (%)	Share Capital (SAR)
Al Hamidi Contracting Establishment Company	47.5%	114,000,000
Abrar International Holding Company	25.5%	61,200,000
Abdul Rahman Hassan Abbas Sharbatly	25.5%	61,200,000
Khalid Mohammed Abdulaziz Al Hamidi	0.5%	1,200,000

Shareholder's Name	Direct Holding (%)	Share Capital (SAR)
Sameer Mohammed Abdulaziz Al Hamidi	0.5%	1,200,000
Haytham Mohammed Abdulaziz Al Hamidi	0.5%	1,200,000
Total	**100.0%**	**240,000,000**

Source: The Company

The following table shows the changes in the Company's share capital and the dates of such changes:

Table 4.6: Changes in the Company's share capital and dates thereof

Date	Share Capital (SAR)	Increase amount (SAR)	Increase Method
26/02/1405H (corresponding to 19/11/1984G)	Ten million (10,000,000)	-	Share capital upon establishment
12/06/1411H (corresponding to 30/12/1990G)	Sixteen million (16,000,000)	Six million (6,000,000)	Capitalization of loans provided by the partners in the amount of six million Saudi riyals (SAR 6,000,000).
27/07/1435H (corresponding to 26/05/2014G)	Two hundred forty million (240,000,000)	Two hundred twenty-four million (224,000,000)	Capitalization of two hundred twenty-four million Saudi riyals (SAR 224,000,000) from the retained earnings account.

Source: The Company

Table 4.7: Loans and advances provided by the Shareholders

Year	Development	Contributions provided	Amounts due as at 31/12/2013G
2008G	The shareholders gave the Company forty-three million, three hundred thirty-three thousand, three hundred thirty-four Saudi riyals (SAR 43,333,334) in the form of loans. The Company fully repaid those loans during 2013G.	Forty-three million, three hundred thirty-three thousand, three hundred thirty-four Saudi riyals (SAR 43,333,334)	N/A (fully repaid in December 2013G)

Source: The Company

4.3 Overview of Substantial Shareholders

4.3.1 Al Hamidi Contracting Establishment Company

Al Hamidi Contracting Establishment Company was established as a limited liability company in Riyadh under Commercial Registration No. 1010004135 on 09/06/1387H (corresponding to 14/09/1967G), with a share capital of five million Saudi riyals (SAR 5,000,000).

The activities of the company include general contracting of roads, ports, buildings, maintenance and operation, plumbing, city cleaning and ownership and development of properties.

The partners' ownership of Al Hamidi Contracting Establishment Company is as follows:

Table 4.8: Ownership structure of Al Hamidi Contracting Establishment Company

Shareholder's Name	Percentage
Mohammed Abdulaziz Al Hamidi Sons Holding Company ("Al Hamidi Holding Company")	70%
Khalid Mohammed Abdulaziz Al Hamidi	10%
Sameer Mohammed Abdulaziz Al Hamidi	10%
Haytham Mohammed Abdulaziz Al Hamidi	10%
Total	**100%**

Source: The Company

4.3.1.1 Al Hamidi Holding Company

Al Hamidi Holding Company is a limited liability company registered in Riyadh under Commercial Registration No. 1010233489 of 10/05/1428H (corresponding to 27/05/2007G), with a share capital of five hundred thousand Saudi riyals (SAR 500,000).

The activities of the company include general contracting, as well as contracting, maintenance and operation of roads, ports and buildings.

The shareholding of Al Hamidi Holding Company is as follows:

Table 4.9: Ownership structure of Al Hamidi Holding Company

Shareholder's Name	Percentage
Khalid Mohammed Abdulaziz Al Hamidi	19.46%
Sameer Mohammed Abdulaziz Al Hamidi	19.44%
Haytham Mohammed Abdulaziz Al Hamidi	19.44%
Fatat Ahmed Abdulkadir Al Sabouna	12.50%
Elham Mohammed Abdulaziz Al Hamidi	9.72%
Iman Mohammed Abdulaziz Al Hamidi	9.72%
Mona Mohammed Abdulaziz Al Hamidi	9.72%
Total	**100%**

Source: The Company

4.3.2 Abrar International Holding Company

Abrar International Holding Company is a limited liability company registered in Riyadh under Commercial Registration No. 4030173959 on 09/11/1428H (corresponding to 19/11/2007G), with a share capital of one million Saudi riyals (SAR 1,000,000).

The activities of the company include the ownership and development of properties, construction and management of hotels, resorts, residential units, malls and wholesale and retail trade in building materials.

The shareholding of Abrar International Holding Company is as follows:

Table 4.10: Ownership structure of Abrar International Holding Company

Shareholder's Name	Percentage
Samauel Abdullah Taha Bakhsh	40%
Hawazin Abdullah Taha Bakhsh	20%
Omnia Abdullah Taha Bakhsh	20%
Bahu Abdullah Taha Bakhsh	20%
Total	**100%**

Source: Abrar International Holding Company

4.3.3 Abdul Rahman Hassan Abbas Sharbatly

Abdul Rahman Hassan Abbas Sharbatly is a founding shareholder in the Company, and is a prominent Saudi figure in the field of business and investments in the Middle East. He is also the Chairman of the Board of Trustees of Hassan Abbas Sharbatly Foundation.

Abdul Rahman Sharbatly is the Chairman of AlNahla Group. He is also a board member of Riyad Bank and Al Sagr Cooperative Insurance Company. He is the founder and chairman of the massive City Stars project in Cairo, Egypt, the largest commercial, hospitality and residential project of its kind in the region.

4.3.4 Shareholders holding 5% or more of the Company's Shares

The following table shows the ownership percentages of the Shareholders who directly own more than 5% of SACO's share capital:

Table 4.11: Shareholders who directly own more than 5% of SACO's share capital

Name	Percentage	
	Pre-Offering	Post-Offering
Al Hamidi Contracting Establishment Company	47.5%	33.25%
Abrar International Holding Company	25.5%	17.85%
Abdul Rahman Hassan Abbas Sharbatly	25.5%	17.85%

Source: The Company

The following table shows the ownership percentages of the shareholders who directly and indirectly own more than 5% of the Company's share capital:

Table 4.12: Shareholders who directly and indirectly own more than 5% of the Company's share capital

Name	Percentage	
	Pre-Offering	Post-Offering
Khalid Mohammed Abdulaziz Al Hamidi	11.72%	8.20%
Sameer Mohammed Abdulaziz Al Hamidi	11.71%	8.20%
Haytham Mohammed Abdulaziz Al Hamidi	11.71%	8.20%
Abdul Rahman Hassan Abbas Sharbatly	25.50%	17.85%
Samauel Abdullah Taha Bakhsh	10.20%	7.14%
Hawazin Abdullah Taha Bakhsh	5.10%	3.57%
Omnia Abdullah Taha Bakhsh	5.10%	3.57%
Bahu Abdullah Taha Bakhsh	5.10%	3.57%

Source: The Company

4.4 The Company's vision, mission and strategy

4.4.1 Vision

The Company aims to become the number one retail destination in Saudi Arabia, by fulfilling all of its customers' needs for hardware, tools, products and home improvement solutions at competitive prices and in a convenient shopping environment.

4.4.2 Mission

The Company seeks to:

- understand customers' needs and provide them with adequate products and home solutions;
- provide a suitable shopping environment for customers by offering a wide variety of products in one location at competitive prices;
- enhance customer confidence by providing appropriate services; and
- for SACO stores to become the regional leader in the field of home improvement products by expanding into Gulf and other Arab countries.

4.4.3 Company strategy

The Company's strategy is to:

- expand its store network by opening new stores in new cities and increasing the number of stores in cities where the Company already has stores. The Company's strategy for the foreseeable future involves opening new stores in Hail, Jizan and Taif, in addition to opening two new stores in Riyadh;
- develop current stores by increasing their surface area and improving their interior and exterior design, in order to improve the customers' shopping experience;
- expand to a number of GCC countries in the future;
- continuously update and develop its product line in keeping with customer requirements;
- develop after-sale services as well as maintenance services to increase the Company's business volumes and revenues;
- develop and train the Company's workforce through Company training programs;
- continue Saudization of employees in conformity with the Company's policies and in line with the Saudization requirements issued by the Ministry of Labor; and
- prepare for the entry of new competitors into the market by providing cost-effective offers to customers and maintaining and expanding the Company's customer base.

Competitive Advantages and Strengths

Economies of scale through mass-purchasing

The total commercial area of SACO's stores is 126,131 square meters throughout the Kingdom. According to Company estimates, these stores cater for approximately 12 million visitors annually. The Company's business volume enables it to take advantage of discounts for the purchase of large quantities of products that are offered by local and international suppliers and manufacturers, such as Ace International, Ahmed Abdulwahed Company for Appliances and Tools and Juffali Technical Equipment Company.

Brand

Having endeavored to serve its customers in the tools and home improvement products sector for three decades, the Company has built a reputable brand in the Kingdom's tools, equipment, home improvement products and housewares sector. In order to sustain the value and evolution of this brand name, SACO seeks to meet its customers' needs and constantly adapt to their requirements in order to offer a wide range of products (numbered at more than 45,000 products) at competitive prices within a suitable shopping environment.

Management team experience

SACO's Senior Management team includes individuals who have been with the Company since its incorporation. The team members have extensive experience in the Company's field of business and have the necessary skills to contribute to the growth of its business. The Company always seeks to attract people with the skills and experience necessary to continue the development and growth of the Company's business.

The knowledge and experience of Senior Management is reflected in the Company's strong financial performance over the past years. The Executive Director/Managing Director and a number of the members of the Board of Directors are members on a number of boards of directors of companies listed on the Saudi Exchange (for more information, please see Section 5.2.3 "Experience and Qualifications of the Members of the Board of Directors").

Shopping Environment

SACO trains its employees at all levels in customer service and product knowledge to enable them to meet customers' requirements and needs.

SACO's stores were designed to provide a shopping environment suitable for customers, by offering wide aisles and displays that make the customer's shopping experience easier. The Company focuses on the interior design of its stores, as the stores' spacious area and clear product labeling method help customers find various options that satisfy their needs.

All of these factors contribute to providing a shopping environment suitable for SACO's customers.

Relationships with major suppliers and international brands

Since its establishment, the Company has sought to establish relationships with leading suppliers at the international and local levels, which enabled the Company to offer a wide range of products to its customers. As a result of such relationships and through the adoption of a policy to continuously update and develop the products offered in its stores, SACO has been able to offer new products before other competitors in the Saudi market.

Exclusive partnership with Ace International

On 5 April 1988G, SACO entered into an exclusive distribution agreement for Saudi Arabia with Ace Hardware, an American company operating in the wholesale sector with an estimated turnover of billions of dollars (for more information, please refer to Section 4.5.1 "Suppliers"). Ace Hardware assigned the distribution agreement entered into with SACO to Ace International pursuant to an assignment agreement dated 23/10/2010G. Ace International and SACO later signed an agreement dated 12/03/2014G to renew the exclusive rights granted to SACO for the Saudi market until 31/12/2024G. Ace International distributes large quantities of goods to a great number of retailers at the international level, including SACO, which takes advantage of the large discounts offered by Ace International for wholesale purchases; this represents a competitive advantage for the Company in the home improvement products market. This exclusive agreement is valid until 31 December 2024G, and renews automatically for several five-year periods unless one of the parties notifies the other that it does not wish to renew within a period of no more than six months prior to the expiration of the agreement.

The above-mentioned exclusive distribution agreement provides stability and a number of competitive advantages to the Company's business, which might in turn contribute to limiting the entry of new competitors into the home improvement products market in the Kingdom since these new competitors will need to enter into agreements with suppliers of Ace International's size in order to sell home products competing with the products offered by the Company.

Continuous product innovation and diversity

SACO purchases large quantities of products from around the world to meet the requirements of its customers, which enables it to maintain its position in the Saudi market. The Company offers new and diverse products in the Kingdom (around 45,000 products) at competitive prices. The diverse products offered by the Company mainly contribute to attracting a wide segment of customers, including local wholesalers and consumers.

This product diversity assists in covering any decline in demand with respect to any of the Company's other products.

Comprehensive market coverage supported by integrated logistics and distribution systems

The Company is currently selling its products in all areas of the Kingdom through 23 stores located in 12 cities inside the Kingdom. The Company has also established three maintenance centers offering the support needed for these stores' sales (i.e., after-sale services) in the Western, Central and Eastern provinces and three warehouses located in strategic locations in the Western and Central provinces, with a total goods storing capacity of 62,963 square meters.

Due to the Company's need for an integrated system connecting all of its stores, maintenance centers and warehouses, and in light of its continuous efforts to support, enhance and accelerate its business strategy and growth plans, the Company started using a SAP enterprise resource planning (ERP) system, in order to better manage its stock and purchases. Utilisation of this system began in November 2013G.

Commitment to Saudization

SACO adopts a policy for the recruitment, training and promotion of Saudi employees in all divisions. The Company was recently classified within the "high green" Nitaqat category, and the Company is continuing the Saudization process in conformity with the Company's policy and in line with the Saudization requirements issued by the Ministry of Labor.

4.5 Overview of the Company's Business

The Company operates in the hardware and home improvement product sector, and is currently operating 23 stores in 12 cities throughout the Kingdom (including Riyadh, Jeddah, Damam and Al Khobar), along with three SACO World superstores to secure customers' needs with respect to housewares, electrical appliances, equipment, tools, construction materials and other home improvement products.

The Company directly manages and operates all of these stores, excluding two stores operated by other parties through franchise contracts in Tabuk and Khamis Mushait. The Company operates two types of stores:

- SACO stores having an area ranging from 2,000 to 6,000 square meters.
- SACO World stores having an area ranging from 11,297 to more than 24,500 square meters which offer a wider range of products.

In 2004G, SACO opened the first SACO World store in Riyadh, a superstore with 11,297 square meters of store space. Later the Company opened two other SACO World stores. The first store, located in Jeddah, has an area of 18,213 square meters and opened in 2010G. The second store, located in Dhahran, has an area of 24,681 square meters and opened in 2011G; this is the largest SACO World store.

Table 4.13: Current Number of Stores

No.	City	Current number of stores
1	Riyadh	9 (including one SACO World store)
2	Jeddah	4 (including one SACO World store)
3	Dammam	1
4	Dhahran	1 (SACO World store)
4	Al Ahsa	1
6	Medina	1
7	Yanbu	1
8	Tabuk	1
9	Jubail	1
10	Buraidah	1
11	Khamis Mushait	1
12	Al Khobar	1

Source: The Company

The Company operates three warehouses to support its network of stores and supply them with products and goods. These warehouses are located in strategic sites in the Western and Central provinces with a total area of 62,963 square meters for storing goods. The Company operates three maintenance centers throughout the Central, Western and Eastern provinces.

Following is a description of the Company's trade activities along with an overview of its suppliers, customer base, stores, products and competitors.

4.5.1 Suppliers

The Company purchases products from local and international suppliers. Within its overall purchasing strategy framework, the Company always seeks to purchase the best quality products at the best prices from suppliers. The following table shows information about the Company's key suppliers

Table 4.14: The Company's key suppliers

No.	Supplier Name	2012G	2013G	2014G	Country	Information about the Supplier
1	Ace International	37.2%	36.0%	23.7%	UAE, USA and China	An American company and a key supplier of home improvement products to more than 4,800 stores in more than 60 countries. Ace International supplies the Company with a wide range of equipment, tools and hardware products. SACO has the exclusive right to use the Ace brand for all products it imports from Ace International. The Dubai branch is one of the three international distribution centers for Ace International along with China and Panama.

No.	Supplier Name	2012G	2013G	2014G	Country	Information about the Supplier
2	Juffali Technical Equipment Company (JETCO)	14.1%*	16.2%*	17.0%	KSA	A Saudi limited liability company supplying SACO with a range of products such as tools, accessories and welding machines , in addition to exclusive products from Kärcher.
3	Ahmed Abdulwahed Company for Appliances and Tools				Saudi Arabia	A Saudi company supplying SACO with a range of products such as Kenwood, Delonghi, Brown, Phillips, BaByliss products, etc.
4	Ningbo Liyang Curtain Company Limited				China	A Chinese company supplying the Company with curtains and accessories. SACO has had the exclusive right to distribute these products since August 2013G.
5	3M Gulf Limited				UAE	A UAE company supplying household care products to SACO.
Top five suppliers of the Company's total purchases		**51.4%**	**52.2%**	**40.7%**		

Source: The Company

*These figures represent total purchases of suppliers No. 2, 3, 4 and 5

1. International Suppliers

SACO's purchases through Ace International accounted for about 23.7% of its total purchases in 2014G, while the remaining products were purchased through several other international suppliers.

a. Ace

Ace Hardware was founded in 1924G as an American limited liability company incorporated in Delaware. It operates in the wholesale sector with an estimated turnover of billions of dollars. Today, it is a key supplier to more than 4,800 stores selling home improvement products in more than 60 countries through its subsidiary Ace International, a limited liability company incorporated in Bermuda.

The relationship between SACO and Ace Hardware began in 1988G when the Company entered into a membership agreement with Ace Hardware, by which Ace Hardware granted SACO exclusive distribution rights in Saudi Arabia for all products offered by Ace Hardware. Subsequently, Ace International, a subsidiary of Ace Hardware, was founded to manage the international operations, while Ace Hardware focuses on the management of operations in the American market only.

Ace Hardware assigned the distribution agreement entered into with SACO to Ace International pursuant to an assignment agreement dated 23/10/2010G. Ace International and SACO then signed an agreement dated 12/03/2014G to renew the exclusive rights granted to SACO for the Saudi market until 31/12/2024G.

Ace International is considered one of the most important companies in the home improvement products sector. It provides its international partners in the retailing sector with a wide range of equipment, tools and hardware. Ace International collects the orders of all of its international retailing partners, including SACO, then purchases very large quantities from manufacturers, enabling the international partners (including SACO) to benefit from economies of scale and thereby obtain discounted prices.

Ace International is currently operating three international distribution centres, in China, Dubai and Panama, which facilitate access to a basic inventory of required products through an express service for ordering goods electronically.

In addition, SACO is able to purchase diverse quantities of products from a large number of suppliers through Ace International, which makes it easier for SACO to purchase the products needed and deal with one entity (Ace International) within set terms known in advance, rather than dealing with a large number of suppliers on terms that may vary from one supplier to another. Ace International ships such goods all together to the Company's warehouses and stores, in order to reduce restrictions and make the procurement process more flexible and less expensive.

As a member of the Ace International network, SACO owns 22,022 class A-2 shares representing 2.3% of Ace International's total shares of all its classes. Such shares have associated voting rights representing 2.3% of the total voting rights of Ace International's shareholders.

The Company owns shares in Ace International as described in the following table. (For more information, please refer to Section 6.7.4 "Shares owned by an external supplier").

The agreement entered into between SACO and Ace International does not include any provisions with respect to discounted prices or preferential incentives. But in practice, Ace International may from time to time provide certain offers regarding specific items from which its suppliers benefit, including SACO.

Table 4.15: Summary Ace International share classes and SACO's shareholding

Share class	Total number	Nominal Value	Voting Rights per share	Shares owned by SACO		
				No. of Shares	Ownership (%)	Voting rights (%)
A-1	768,674	USD 100	One vote per share	-	-	-
A-2	216,953	USD 100	One vote per share	22,022	10.15%	10.15%
Total	**985,627**	**USD 100**	**One vote per share**	**22,022**	**2.23%**	**2.23%**

Source: The Company

b. Other International Suppliers

SACO procures several types of products from a diverse range of suppliers. The Company has entered into exclusive and non-exclusive distribution agreements with many companies around the world in order to manufacture standardized or customized products to be sold in SACO's stores. SACO holds an exclusive distribution agreement with Ningbo Liyang Curtain Company Limited, from which it procures in excess of 1% of its total purchases as at the date of this Prospectus (for more information, please refer to Section 4.5.1 "Suppliers", of this Prospectus). For this purpose, the Company has registered certain trademarks used on products that are imported from different places around the world and marketed in Saudi Arabia, such as Sportex products manufactured on demand in China according to SACO's specifications and which are marketed by the Company as an exclusive trademark in the Saudi market.

2. Local Suppliers

SACO has concluded many exclusive and non-exclusive distribution agreements with local suppliers. SACO holds an exclusive distribution agreement with Juffali Technical Equipment Company (for certain Kärcher brand products) from which it procures in excess of 1% of its total purchases as at the date of this Prospectus (for more information, see Section 4.5.1 "Suppliers", of this Prospectus). Local suppliers wishing to display their products in SACO's stores must adhere to a set of strict rules and procedures set by the Company. In order to ensure compliance with such rules and procedures, SACO's Purchasing Department oversees all product specifications.

SACO has long-term relationships with key local suppliers through which it aims to provide high-quality products to its customers. However, SACO has not entered into distribution agreements with all of its local suppliers, preferring not to enter into long-term relationships with non-strategic partners.

4.5.2 Stores, warehouses and maintenance centers

SACO opened its first store in 1985G, and at the date of this Prospectus, SACO has 23 stores throughout the Kingdom. The Company manages and operates all of these stores directly, excluding two stores operated through franchise contracts in both Tabuk and Khamis Mushait.

The Company normally leases all of its stores or the land on which it establishes stores for at least three renewable years. The Company operates two types of stores: (a) SACO stores, with surface areas ranging from 2,000 to 6,000 square meters, and (b) SACO World stores, with surface areas ranging from 11,297 to more than 24,500 square meters, which offer a wider range of products and items such as furniture and outdoor products.

Table 4.16: SACO stores as at 31/12/2014G

No.	Branch	City	Area allocated to sales (m2)[3]	Opening Date	Leased / Owned	No. of Employees
1.	Woroud	Riyadh	3,900	01/01/1985G	Leased	45
2.	Takhassusi	Riyadh	5,853	01/09/1992G	Leased	52
3.	SACO World	Riyadh	11,297	05/05/2004G	Leased	141
4.	Badiaa	Riyadh	3,379	02/03/2009G	Leased	40
5.	Hamra	Riyadh	3,714	08/05/2010G	Leased	44
6.	Khurais	Riyadh	5,915	14/06/2010G	Leased	66
7.	Rimal	Riyadh	3,904	26/06/2010G	Leased	37
8.	Al Qasr	Riyadh	4,594	13/06/2012G	Leased	44
9.	Alaliah Plaza	Riyadh	4,241	19/02/2015G	Leased	20
10.	Buraydah	Buraydah	2,929	16/01/2005G	Leased	39
11.	Khobar	Khobar	3,668	01/11/1994G	Leased	35
12.	Jubail	Jubail	2,009	01/11/1999G	Leased	32
13.	Dammam	Dammam	2,195	01/08/2001G	Leased	36
14.	SACO World	Dhahran	24,681	23/06/2011G	Leased	137
15.	Al Ahsa	Al Ahsa	4,008	25/06/2011G	Leased	50
16.	Andalus	Jeddah	2,480	01/02/1994G	Leased	39
17.	Tahlia	Jeddah	2,346	01/01/2000G	Leased	41
18.	SACO World	Jeddah	18,213	09/06/2010G	Leased	113
19.	Al Sawary	Jeddah	5,258	08/05/2014G	Leased	33
20.	Medina	Medina	2,938	02/09/2007G	Leased	38
21.	Yanbu	Yanbu	3,374	13/10/2010G	Leased	37
22.	Khamis Mushait	Khamis Mushait	2,205	01/07/1997G	Franchise	N/A[4]
23.	Tabuk	Tabuk	3,029	01/05/1997G	Franchise	N/A

Source: The Company

Table 4.17: SACO warehouses as at 31/12/2014G

No.	Branch	City	Area (m2)	Opening Date	Leased / Owned	No. of Employees
1.	Al Selayy District*	Riyadh	44,030	01/03/2010G	Leased	173**
			6,333	01/03/2014G		
2.	Al Selayy District	Riyadh	10,600	01/03/2013G	Leased	
3.	Al Khumra District	Jeddah	2,000	18/12/2009G	Leased	4

Source: The Company

*On 01/03/2014G, an additional area of 6,333 square meters was leased for this warehouse from the same lessor.

**The employees of the two warehouses in Riyadh work at both sites as needed.

3 The areas listed in this table may vary from the areas stated in leases (please refer to Section 11.9.2, “Leases”) as the leases sometimes refer to areas greater than the area allocated to sales because they include parking and other store facilities. Sometimes the lease agreements refer only to the area of the first floor of these stores and thus the areas mentioned in this table are smaller than the actual areas allocated to sales.
4 These stores are operated by franchise owners who provide sufficient labour under their sponsorships.

Table 4.18: SACO Maintenance centres as at 31/12/2014G

No.	Branch	City	Area (m2)	Opening Date	Leased / Owned	No. of Employees
1.	Al Malaz District	Riyadh	714	08/06/2010G	Leased	12
2.	SACO World[3]	Dhahran	131	23/06/2011G	Leased	3
3.	Andalus[4]	Jeddah	20	09/06/2010G	Leased	1

Source: The Company

In 2004G, SACO opened the first SACO World store in Riyadh, a superstore with over 11,297 square meters of store space. Later on, the Company opened two other SACO World stores. The first store, located in Jeddah, has an area of 18,213 square meters and was opened in 2010G. The second store, located in Dhahran, has an area of 24,681 square meters and was opened in 2011G; this is also the biggest store in the SACO network. The Company has been working on an ambitious expansion plan since 2010G, and the retail store area has been doubled since the start of the plan. The average commercial area per store is currently 5,540 square meters.

As a part of its expansion plan, SACO intends to open new stores in Hail, Jizan, Taif and Riyadh. The Company signed a new lease for a new store in Jizan dated 12/06/2014G. The Company is in the process of preparing this store which it intends to open in July 2015G. The Company signed a lease for a new store in Hail dated 04/12/2014G scheduled to be opened in January 2016G. The Company signed a lease for a new store in Riyadh (the Dir'iya store, dated 01/12/2012G) scheduled to be opened in May 2015G.

The SACO store network is supported by three warehouses located in strategic sites in the Western and Central regions, with a total area of 62,963 square meters for storing goods. There are also three maintenance centres in the Central, Western and Eastern regions in the Kingdom.

4.5.3 Products

In its stores, SACO offers a wide range of products comprising about 45,000 different items belonging to the following categories:

- Housewares
- Electrical appliances
- Home appliances
- Lawn and Garden
- Outdoor furniture
- Lighting
- Hardware
- Paint supplies
- Bed and bath
- Hand and power tools
- Building materials
- Indoor furniture
- Sporting gear and accessories
- Automotive
- Plumbing
- Storage and organization
- Children's toys

SACO has concluded agreements with a number of international and local suppliers who provide the Company with various branded products, including Ace, Grohe, Kenwood, Makita, Moulinex and Kärcher, as well as many other brands. The Company is committed to constantly improving and offering new products. It also procures and offers products with standard international specifications. It sometimes adjusts the specifications of certain products so as to be in line with the requirements of Saudi consumers, for the purpose of satisfying its growing customer base.

SACO also seeks to increase inventory management efficiency and focuses on the effective liquidation of its inventory. Following is a summary of the methods used by SACO to increase inventory management efficiency:

1. Products under liquidation: SACO includes these products within a promotional brochure that it hands out to all customers who visit SACO's stores. This brochure is typically issued twice a year.
2. Defective products: These products are collected by the Company, offered to wholesale buyers and sold at a public auction outside its stores.
3. "Last Piece" program: where the automated system automatically lowers the price of the last piece of any product on display in any store in order to liquidate the inventory.

The above steps contribute to the liquidation of old store inventories, in order to make room on the shelves for new tools and supplies.

5 The maintenance center for the Eastern Region is located at SACO World store in Dhahran.
6 The maintenance center for the Western province is located at Andalus store in Jeddah

4.6 The Company's Departments

The Company has eleven key departments providing the necessary support to operate and manage the Company's business, including:

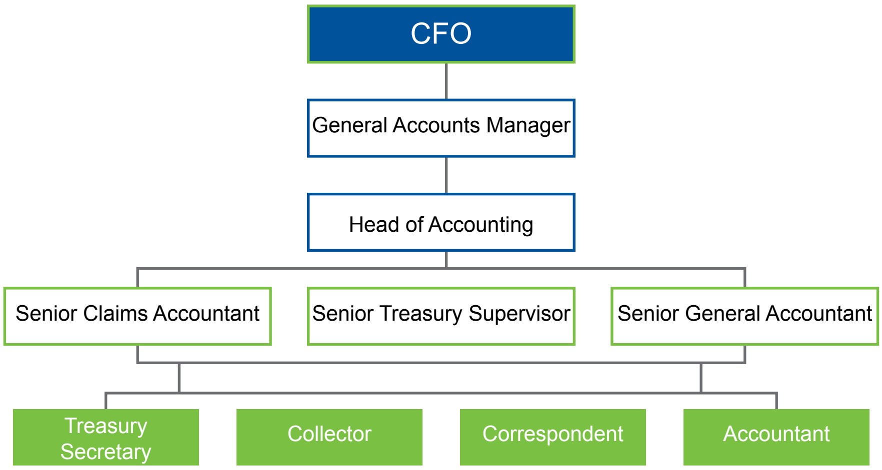
1. Finance and Accounting Department
2. IT Department
3. Procurement Management Department
4. Marketing Department
5. Legal Department
6. Risk Management Department
7. Real Estate Department
8. Human Resources (HR) Department
9. Supply Chain Management Department
10. Merchandise Category and Display Department
11. Services Department

4.6.1 Finance and Accounting Department

The Finance and Accounting Department had 25 employees as at December 2014G. The Chief Financial Officer (CFO) is in charge of the management of this department.

The following chart illustrates the organizational structure of the Finance Department:

The Finance Department is responsible for the following:



4.6.1.1 Policies and procedures

- Develop, implement and maintain the Company's financial policies and procedures to ensure sound financial management and control.
- Make sure that accounting policies and procedures are in line with SACO's general policies and are compatible with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). The Finance and Accounting Department periodically reviews such policies and procedures and recommends the necessary amendments.

4.6.1.2 Budget

- Support the Company's departments in the preparation of their budgets, including capital and operating expenses.
- Prepare the periodic reports on deviations from the budget, analyze the causes, review differences with departments, and propose appropriate corrective measures to the CEO.

4.6.1.3 Working capital management

- Determine working capital requirements and size and types of funding required.
- Periodically monitor working capital requirements to ensure compliance with specific standards.

4.6.1.4 Risk Management

- Ensure that the Company's assets and liabilities are certified according to sufficient and valid documents, and that they have been recorded and stated correctly in the Company's financial statements.
- Periodically review financial, operational and credit risks to ensure that they are within accepted standards.
- Maintain appropriate internal control, whether administrative or operational, in order to ensure that the Company's assets are protected against losses.

4.6.1.5 Cost Accounting

- Develop and analyze the business cost structure (deviations, actual versus standards, expenses, inventories, etc.) and control ongoing cost elements according to the approved work plan.

4.6.1.6 Treasury and Banks

- Ensure that applications for credit facilities and obligations under the concluded contracts are properly approved.
- Negotiate the terms and provisions of facilities agreements, manage currency exchange rate volatility risks and manage powers according to the approved authorizations.
- Ensure that all bank accounts are reconciled on a regular basis with bank statements and verify discrepancies.

4.6.1.7 Reports

- Ensure that the provisions, accruals, prepaid expenses and monthly and annual settlement of the Company's accounts have been fully and accurately made based on adequate documentation.
- Ensure that the financial reports are prepared in a timely manner and check their accuracy, analyze the financial position, prepare illustrative financial reports and present them to CEO.

4.6.2 IT Department

SACO's operations require integrated IT management to manage every aspect of the daily business, from inventory, logistics and support, to the payroll of more than 2,000 employees, particularly as the Company's operations include the sale of more than 45,000 types of products and equipment procured from hundreds of local and international suppliers.

SACO has used its own proprietary system for twelve years. This system was a program developed internally to meets the Company's IT needs. With the rapid growth of the Company, these needs exceeded that system's capabilities. In 2013G, the Company decided to invest in SAP ERP, an operation-oriented integrated system to support the Company's current operations and additional expansion plans.

SAP ERP is a system developed by SAP AG, a German company established in 1972G. This system supports various industries and is used by international companies such as Boeing, Airbus, Mercedes-Benz, Saudi Aramco, SABIC and many other companies.

Through this system, SACO aims to improve efficiency at the procurement level, especially since Ace International uses the same system, which provides the two companies with greater coordination in the procurement process and significantly facilitates automated product ordering based on the inventory level.

Through SAP ERP, business divisions such as the Marketing department, Procurement Management, Risk Management (among other divisions(are fully integrated with each other, which grants them full control over the inventory, warehouse management, merchandise assortment planning, HR, customer relationship management (customer behavior tracking), business intelligence reporting, and permits the Company to manage efficiently its activities and plan ahead its business strategies based on accurate information.

The system depends on central servers located within Data Center-Tier 3 that is operated by Etihad Etisalat (Mobily). The main server of the Company and all of its stores and warehouses is linked directly to these central servers through two direct connection lines (IP-VPN) provided by Eithad Etisalat (Mobily) and Integrated Telecom Company (ITC).

As at May 2014G, the Company invested in Virtualized Server Recovery (VST), a disaster recovery solution provided by IBM and Eithad Etisalat (Mobily), which ensures the continuity of service in the event that the central servers within Data Center-Tier 3 go down. Operation of this system began in November 2013G.

As at 31 December 2014G, the IT Department had 17 employees in two divisions, with seven employees in charge of business applications and ten employees in charge of the infrastructure and security division.

4.6.3 Procurement Management Department

As one of the major importers of home improvement products in Saudi Arabia, SACO places significant emphasis on diversifying its displays and offering the widest possible range of products through the Company's Procurement Department. The Company is continually looking to offer new products with a view to providing comprehensive solutions to its customers, with a primary focus on importing high-quality items at competitive prices from all over the world in a timely manner.

SACO's Procurement Management Department inspects the goods and products before purchasing them, either directly by visiting the plants or by requiring the suppliers to send samples to the Department's main office at SACO. Such samples are inspected for the appropriateness of the goods with regard to Saudi market requirements. The supplier and manufacturer are required to amend such products in line with the Saudi market.

In order to continually develop its product categories, SACO regularly participates in many international trade fairs in order to stay informed on the newest products and technologies with a view to providing them to its customers.

The Company conducts thorough feasibility studies of the spaces allocated to new products in its stores. After conducting the feasibility studies, the Company's procurement team meets with suppliers to negotiate prices and quantities before agreeing to buy the product. After reaching an agreement with the supplier, the Procurement Management Department ensures the continued presence of the product in stores by sending purchase orders through SAP ERP.

As at 31 December 2014G, the Company's Procurement Management Department had 31 employees.

4.6.4 Marketing Department

Based on the Company's confidence that its brand equity constitutes a competitive advantage and is a key factor in the development strategy it adopts, the Company continues to invest in marketing and promoting the SACO brand name as a leading name in the market for comprehensive home improvement product solutions. This includes the launch of a variety of marketing and advertising activities, such as advertising on TV channels, newspapers and billboards and organizing promotional events inside and outside the Company's stores. SACO is looking to strengthen its brand name and increase loyalty to the SACO brand and the products it offers through the implementation of a variety of innovative marketing initiatives. In addition, the Marketing Department designs and distributes a promotional brochure including a wide range of products. The Marketing Department has developed Android and Apple smartphone applications to keep its special customers updated on the latest products and trends.

The company offers the SACO My Rewards cards and runs promotional campaigns jointly with third parties (such as special discounts for set periods for holders of credit cards from certain banks) in order to enhance customer loyalty and develop long-term relationships with customers.

In addition to advertisements and promotional campaigns, the Marketing Department contributes to developing the Company's strategy by conducting market research based on customer feedback. The Marketing Department analyses market trends and uses SAP ERP to study consumer behavior, in addition to using social networking sites (such as websites, call center systems, Facebook, Twitter and Instagram) to communicate with customers and understand their needs.

SACO, in collaboration with global advertising companies, conducts advanced research to study the market, better understand customers' needs and adapt its product offering accordingly.

As at 31 December 2014G, the Marketing Department had 25 employees working within two teams:

- The creative team, in charge of designing marketing materials
- The Field marketing team, concerned with the collection of market information and supervising the implementation of the Company's marketing strategy inside SACO stores.

4.6.5 Legal Department

The key responsibilities of the Legal Department are:

- Review all legal documents, constitutional documents and contracts, and provide legal advice to the Board of Directors and Senior Management with respect to the Company's legal affairs.
- Prepare draft contract and legal agreements.
- File and pursue lawsuits against other parties and represent the Company before the courts.
- Provide legal advice to all of the Company's internal departments.
- Review all regulations, circulars and directives issued by governmental agencies with respect to the Company's business.
- Supervise the nomination process and negotiate with foreign offices working in the field of law and legal consultation services as needed.
- Supervise the holding of general assemblies and consult with the relevant ministries and governmental entities.

4.6.6 Risk Management Department

The Risk Management Department is concerned with protecting the Company's buildings, warehouses and inventory, through the deployment of security personnel and surveillance cameras and hiring people to ensure safety. The main purpose of the deployment of security personnel is to deter thieves and report accidents, allowing the Company to take appropriate measures. The Company's premises and warehouses are guarded by 93 security personnel supported by 800 surveillance cameras covering all the Company's stores and warehouses as on 31 December 2014G.

This department also constantly monitors in-store financial transactions and all amounts received by cashiers (petty cash accounts).

In addition, a safety official specialized in fire-fighting recently joined SCAO in order to implement a strategy for the prevention of fires in all stores and warehouses.

4.6.7 Real Estate Department

In this area, SACO aims to secure prime locations for its stores over the long-term at affordable prices through the conclusion of long-term leases with the developers of commercial complexes and land owners.

The Real Estate Department is responsible for determining the best locations for new stores, negotiating the terms and conditions of leases and managing relationships with property owners, including negotiating lease renewals.

Real estate brokers and property owners often communicate with the Company about providing opportunities or offers to lease store space. Due to the size of its operations and broad client base including key commercial complex tenants, SACO's management seeks to attract this type of tenants with a view to increasing the turnout of shoppers at the mall. In addition, SACO has the ability to negotiate with commercial complex developers in order to impose conditions on the choice of neighboring tenants.

4.6.8 Human Resources Department

SACO places great emphasis on choosing and training its personnel. The Company, supported by the Human Resources Development Fund, employs and trains Saudi nationals on a regular basis. The Company also attends job forums which are used to provide employment opportunities to Saudi youth, where the Company's team meets with and interviews applicants to discuss the possibility of hiring them (for more information, please refer to Section 4.7 "Employees").

4.6.9 Supply Chain Management Department

The Supply Chain Management Department consists of the Logistics Division and the Warehouse Division.

The Logistics Division, after receiving purchase orders from the Procurement Management Department, engages specialized companies in the exporting country to inspect the products being purchased in specialized laboratories before they are shipped to the Kingdom, in order to ensure compliance with the standards imposed by the Saudi Standards, Metrology and Quality Organization (SASO). Once the products reach the Kingdom, the Company commissions customs clearance bureaus to complete the customs clearance procedures and receives and transports the products to the warehouses. The Warehouse Department then distributes the goods automatically based on the orders and needs of each store through SAP ERP.

The Company's stores have the ability to request rush orders from warehouses in cases when the customer urgently orders products that are not available in the store. This allows the products to be delivered within 24 hours from receipt of the request.

The Company depends on its own fleet to ferry large items from its stores to the customers. As for the transport of goods between warehouses and stores, the Company depends heavily on third parties specialized in logistics.

As at 31 December 2014G, the Logistics Department employed 17 people, and the Warehouse Department employed 177 people.

4.6.10 Merchandise Category and Display Department

This department is responsible for selecting the range of products to be included in SACO's inventory based on market research, assessment of customer orders, analysis of competitors' offering, and attendance of international shows and fairs. This department also develops a comprehensive action plan for each category of products to determine the price range, requisite purchase quantities and display method.

This department also works in coordination with the Procurement Management Department, which it supervises to ensure that the products purchased comply with adopted strategies.

4.6.11 Service Department

This department mainly supervises the implementation of delivery and installation services available on request in SACO stores. The Delivery and Installation Division has a specialized services team, consists of staff with extensive experience in transporting and installing products that include, but are not limited to, parquet, artificial turf, furniture and air conditioners.

In addition, customers can call the department after the delivery and installation of products to ask any questions or report after-sale problems, which enhances customer confidence in the Company.

4.7 Employees

As at 31 December 2014G, the Company had 2,035 employees, 694 of whom were Saudis. The Company was classified within the "high green" Nitaqat category, having achieved a Saudization rate of 34.1% of the Company's labor force. The Company does not employ any non-Saudis who are not under its sponsorship.

The following table illustrates the number of the Company's employees for the periods indicated:

Table 4.19: Number of Company employees in 2011G, 2012G, 2013G and December 2014G

Category	December 2011G	December 2012G	December 2013G	December 2014G
Saudis	440	629	708	694
Non-Saudis	1,109	1,103	1,179	1,341
Total number of employees	1,549	1,732	1,887	2,035
Percentage of Saudi employees	**28.4%**	**36.3%**	**37.5%**	**34.1%**

Source: The Company

New Saudi employees are trained in two phases. In the first phase, specialized training companies run programs to qualify and train those employees. These programs also focus on improving awareness of the work environment, and trainees receive courses in English and other required skills. In the second phase, the Company conducts training through its own training program so as to retain serious and qualified nominees who receive permanent jobs at the end of the four-month training period.

Non-Saudi employees are recruited through external recruitment offices. The Company's Human Resources Department interviews candidates before they are employed to ensure that all job requirements are met. Their skills are tested in specialized testing facilities to make sure they have the required qualifications.

Middle management staff, however, is employed through recruitment agencies inside or outside Saudi Arabia. The Company gives priority to Saudi nationals when hiring new employees.

In addition, the Company's current management has developed an incentive plan that primarily focuses on training management level staff, and consolidating the Company's values and vision through the training of young leaders in order to ensure sustainability and future growth.

4.8 Future Prospects

SACO constantly seeks to maintain its business and income growth and to acquire a significant market share through:

- **Geographic expansion of the Company's stores:** SACO intends to upgrade its existing stores by increasing the store area and continuing to expand throughout Saudi Arabia. The Company signed, on 01/12/2012G, a lease for a new store in Riyadh (the Dir'iya, store), which is scheduled to open in May 2015G. In addition, the Company signed, on 12/06/2014G, a lease for a new store in Jizan, which is being prepared and is scheduled to open in July 2015G. Furthermore, the Company signed, on 04/12/2014G, a lease for a new store in Hail, which is scheduled to open in January 2016G.
- **Development of the Company's products:** SACO focuses on providing a better shopping environment by offering a wide selection of products and upgrading and improving these products to keep up with market trends and customer requirements. However, SACO does not intend to introduce new categories and will focus on the continued development of its current product range.

5. Corporate Structure and Governance

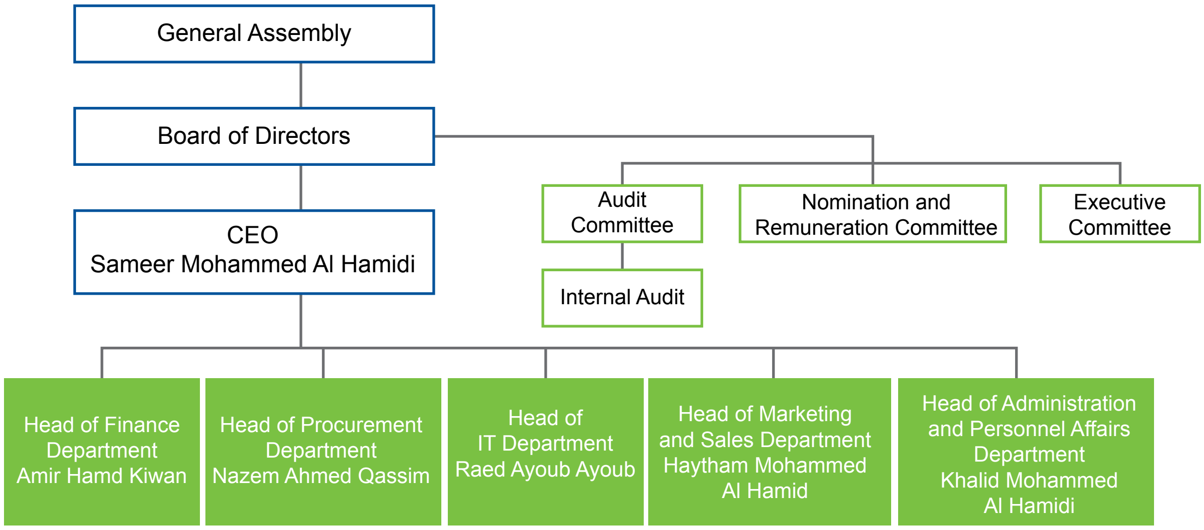
5.1 Organizational Structure

The chart below shows the organizational structure of the Company:

5.2 Board of Directors

The Board of Directors is composed of (9) members appointed by the General Assembly meeting held on 23/09/1435H (corresponding to 20/07/2014G).

The Chairman and other members of the Board of Directors shall undertake the responsibilities stated below:



5.2.1 The Chairman of the Board

- Convening and presiding over meetings of the Board of Directors and General Assemblies;
- Representing the Company at official and press events, among others;
- Ensuring the clarity and accuracy of the Board of Director's agenda and the priority of issues submitted before the Board;
- Ensuring that the responsibilities of the Board of Directors are in line with the vision and strategy of the Company;
- Ensuring the clarity of the Board of Director's duties, the scope and distribution of roles among Board members;
- Voting on the appointment of Senior Management and executives;
- Evaluating the performance of the Board of Directors.

5.2.2 Members of the Board of Directors

- Participating in, preparing and directing the Company's strategic plans;
- Supervising the executive committee to ensure the effective implementation of the policies and objectives of the Company;
- Participating in determining the strategies and priorities of the Company and supervising the effective and best use of the Company's assets;
- Voting on the appointment of the CEO and Senior Management;
- Including any related party transactions in the agendas of General Assemblies for approval;
- Approving the Company's annual budget.

The Nomination and Remuneration Committee proposes the remunerations of the Chairman and the Managing Director in addition to the remuneration established for the members of the Board of Directors as stipulated in the Company's By-laws.

The table below provides some details of the members of the Company's Board of Directors:

Table 5 1: Members of the Company's Board

Sr.	Name	Position	Issuing Authority	Nationality	Age	Title	Direct ownership				Indirect ownership		***Membership Date***
							Percentage Pre- Offering	No. of Shares Pre-Offering	Percentage Post Offering	No. of Shares Post Offering	Pre Offering	Post–Offering	
1	Abdel Rahman Amin Hassan Gawah	The Chairman of the Board	-	Saudi	62	Non-executive/ Independent	0%	1.000**	0%	1.000	0%	0%	20/07/2014G
2	Khalid Mohammed Abdulaziz Al Hamidi	Head of Administration and Personnel Affairs Department / Member	Al Hamidi Contracting Est. Co.	Saudi	58	Executive	0.5%	120.000	0.35%	84.000	11.22%	7.85%	20/07/2014G
3	Sameer Mohammed Abdulaziz Al Hamidi	Chief Executive Officer / Managing Director	Al Hamidi Contracting Est. Co.	Saudi	55	Executive	0.5%	120.000	0.35%	84.000	11.21%	7.85%	20/07/2014G
4	Haytham Abdulaziz Al Hamidi	Head of Marketing and Sales Department / Member	Al Hamidi Contracting Est. Co.	Saudi	49	Executive	0.5%	120.000	0.35%	84.000	11.21%	7.85%	20/07/2014G
5	Samauel Abdullah Taha Bakhsh	Member	Abrar International Holding Company	Saudi	45	Non-executive	0%	0	0%	0	10.2%	7.14%	20/07/2014G
6	Bandar Khalid Ibrahim Al-Turki	Member	-	Saudi	44	Non-executive	0%	1.000**	0%	1.000	0%	0%	20/07/2014G
7	Diwan Sadeq Abdul Bassir Fadl	Member	Abrar International Holding Company	Canadian	63	Non-executive	0%	1.000**	0%	1.000	0%	0%	20/07/2014G
8	Ahmed Mohammed Salem Al Serry	Member	-	Saudi	66	Non-executive/ Independent	0%	1.000**	0%	1.000	0%	0%	20/07/2014G
9	Abdul Mohsen Ibrahim Abdulaziz Al Touq	Member	-	Saudi	40	Non-executive/ Independent	0%	1.000**	0%	1.000	0%	0%	20/07/2014G

Source: The Company

*According to the Company's By-Laws and Companies regulations, every Board member shall own shares totaling at least SAR 10,000 in value. The Qualification Shares certificates are deposited at the Saudi British Bank (SABB).

**These shares have been allocated to ensure the responsibility of the concerned director.

***The dates mentioned in this table are the dates on which the directors were appointed in the current position as set out in the table. The biographies of the members of the Board of Directors indicate the appointment date of each director.

5.2.3 Experience and Qualifications of Members of the Board of Directors

The following is a summary of the biographies of the current members of the board of directors in the Company:

Abdel Rahman Amin Hassan Gawah

Nationality	Saudi
Age	62 years old
Current position	Chairman of SACO's Board of Directors since 2014G
Academic qualifications	Bachelor of Science degree in International Business Administration in 1974G from Ohio State University, United States of America. Advanced Management Course - Harvard University
Current board of directors membership positions	• Deputy chairman of the Saudi Fransi Capital's Board of Managers, a limited liability company specializing in financial and brokerage services, since 2011G.
Other Current executive positions	• Senior consultant of Business Development at Riyad Bank, a joint stock company specializing in the field of commercial banking services, since 2014G.
Former board of directors membership positions	• Board member at Allianz Saudi Fransi Cooperative Insurance, a public joint stock company specializing in insurance, from 2007G to 2014G. • Board member at Calyon Saudi Fransi, a limited liability company specializing in investment banking and financial consultancy services, from 2007G to 2011G. • Board member at Cam Saudi Fransi, a limited liability company specializing in assets management, from 2007G to 2011G. • Board member at the Fransi Circulation Company, a limited liability company specializing in brokerage, from 2007G to 2011G. • Chairman of Banque Bemo Saudi Fransi's Board of Directors, a joint stock company specializing in banking services, from 2007G to 2010G. • Board member at Banque Bemo Saudi Fransi, a joint stock company specialized in banking services, from 2006G to the end of 2006G. • Board member at Bemo's Europe Banque of the Middle East, a joint stock company specializing in banking services, from 2003G to 2010G. • Chairman of the Saudi Travelers Cheques Company's Board of Directors, a joint stock company specializing in travelers cheques, from 1995G to 2010G. • Board member at Al-Amthal Leasing & Financing Co. Ltd., a limited liability company specializing in leasing and financing, from 2000G to 2012G. • Board member at Banque Saudi Fransi, a joint stock company specializing in commercial banking services, from 1995G to 2014G.
Previous Professional Experience	• Deputy of the Managing Director of Banque Saudi Fransi, a joint stock company specializing in commercial banking from 1990G to 2013G. • Central Region's Regional Director of Banque Saudi Fransi, a joint stock company specializing in commercial banking, from 1984G to 1990G. • Director of the Banque Saudi Fransi Head Office in Riyadh, a joint stock company specializing in commercial banking, from 1982G to the end of 1983G. • Deputy Director of the Banque Saudi Fransi Head Office in Riyadh, a joint stock company specializing in commercial banking, from 1980G to the end of 1981G. • Director General of Hisham Trading Est., an individual enterprise specializing in trade and contracting, from 1977G to 1980G. • Assistant Director of the Saudi Investment Bank, a joint stock company specializing in commercial banking, from 1976G to the end of 1977G. • Assistant Director of First National City Bank / Riyadh from 1974G to 1976G, a joint stock company specializing in commercial banking.

Khalid Mohammed Abdulaziz Al Hamidi

Nationality	Saudi
Age	58 years old
Current position	Head of SACO's Administration and Personnel Affairs Department since 2011G Board member at SACO since 2014G
Academic qualifications	Bachelor's degree in Engineering in 1979G from Southern Methodist University in Dallas, Texas, United States of America.
Current board of directors membership positions	• Chairman of Al Hamidi Contracting Establishment Company's Board of Managers, a limited liability company specializing in contracting since 1992G. • Chairman of Mohammed Abdulaziz Al Hamidi Sons Holding Company's Board of Managers, a limited liability company specializing in contracting, since 2007G. • Chairman of sons of Mohammed Abdulaziz Al Hamidi Sons Insurance Agency Company's Board of Managers, a limited liability company specializing in insurance agencies, since 2008G. • Board member at Al-Yamamah Press Establishment, a Saudi journalist organisation and a boardmember of its investment committee since 2007G
Other current executive positions	N/A
Former board of directors membership positions	• Chairman of SACO's Board of Directors, a closed joint stock company specializing in wholesale and retail trading of equipment and tools, from 2011G to June 2014G. • Board member at Capital Investment, a limited liability company specializing in financial services, from 2008G to 2010G.
Previous Professional Experience	• Chief Administration Officer at SACO, a closed joint stock company specializing in wholesale and retail trading of equipment and tools, from 1996 to 2011G. • Project Manager / On-Site Engineer at Al Hamidi Contracting Establishment Company, a Saudi limited liability company specializing in contracting, from 1980G to 1996G. • Project Engineer at HP Zachary company, a US joint-stock company specializing in contracting, from 1979G to 1980G.

Sameer Mohammed Abdulaziz Al Hamidi

Nationality	Saudi
Age	55 years old
Current position	SACO's Chief Executive Officer / Managing Director since 2011G
Academic qualifications	Bachelor's degree in Economics and Business Administration in 1980G from Southern Methodist University in Dallas, Texas, United States of America.
Current board of directors membership positions	• Board member at Al Hamidi Contracting Establishment Company, a limited liability company specializing in contracting, since 1992G. • Board member at Mohammed Abdulaziz Al Hamidi Sons Holding Company, a limited liability company specializing in contracting, since 2007G. • Board member at Mohammed Abdulaziz Al Hamidi Sons Insurance Agency Company, a limited liability company specializing in insurance agencies, since 2008G. • Board member at ACE International Ltd, a limited liability company specializing in supplying equipment and tools since 2011G. • Board member at Deutsche Securities Saudi Arabia, a Saudi closed joint stock company specializing in financial services, since 2010G. • Board member at Astra Industrial Group since 2008G, a Saudi joint stock company specializing in manufacturing.
Other current executive positions	N/A
Former board of directors membership positions	N/A
Previous Professional Experience	• General Director of SACO, a closed joint stock company specializing in wholesale and retail trading of equipment and tools, from 1985G to 2011G. • Deputy Chairman of Al Hamidi Contracting Establishment Company, a limited liability company specializing in the field of contracting from 1981G to 1985G.

Haytham Mohammed Abdulaziz Al Hamidi

Nationality	Saudi
Age	49 years old
Current position	• Head of Marketing and Sales Department since 2011G • Board member at SACO since 2011G
Academic qualifications	• Bachelor's degree in Economics in 1987G from Southern Methodist University in Dallas, Texas, United States of America. • Master's degree in Business Administration from the University of Dallas in 1989G.
Current board of directors membership positions	• Board member at Al Hamidi Contracting Establishment Company, a limited liability company specializing in the field of contracting, since 1992G. • Board member at Mohammed Abdulaziz Al Hamidi Sons Holding Company, a limited liability company specializing in contracting, since 2007G. • Board member at Mohammed Abdulaziz Al Hamidi Sons Insurance Agency Company, a limited liability company specializing in insurance agencies, since 2008G. • Board member at the National Petrochemical Company (Petrochem), a Saudi joint stock company specializing in the field of petrochemicals since 2010G. • Board member at Rana Investment Company, a Saudi closed joint stock company specializing in the field of financial services, since 2003G.
Other current executive positions	N/A
Former board of directors membership positions	N/A
Previous Professional Experience	Executive Director of SACO's Marketing and Sales Department, a closed joint stock company specializing in the wholesale and retail trading of equipment and tools, from 1993G to 2011G. Global investment officer in Riyadh Bank since 1992G to 1993G, a Saudi public joint stock company specializing in the field of commercial banking services. Chairman of the SAMA's fixed-income securities portfolio from 1990G to 1992G

Samauel Abdullah Taha Bakhsh

Nationality	Saudi
Age	45 years old
Current position	Board member at SACO since 2011G
Academic qualifications	Bachelor's degree in Engineering in 1991G from George Washington University, Washington, United States of America.
Current board of directors membership positions	• Chairman of Wardieh Holdings Incorporation's Board of Directors in Beirut, a Lebanese public joint stock company specializing in the field of petroleum, since 2005G. • Board member at Jeddah Economic Company, a limited liability company specializing in contracting, since 2009G. • Chairman of Arabian Bemco Contracting Company's Board of Managers, a limited liability company specializing in contracting, since 2008G. • Board member at Willis Saudi Arabia Company Limited, a limited liability company specializing in insurance, since 2001G.
Other current executive positions	• Manager of Abrar International Holding Company since 2007G, a limited liability company specializing in real estate development. • Manager of Retaj distinct Business Investment Company Limited, a limited liability company specializing in business investment, since 2007G.
Former board of directors membership positions	Chairman of Samco Company's Board of Managers, a limited liability company specializing in maritime transport, from 2008G to 2014G.
Previous Professional Experience	N/A

Bandar Khalid Ibrahim Al-Turki

Nationality	Saudi
Age	44 years old
Current position	Board member at SACO since 2014G
Academic qualifications	• Bachelor's degree in Business Administration from King Saud University, Riyadh, Saudi Arabia in 1994G. • Masters Business Administration degree in marketing in 1998G from George Washington University, Washington, United States of America.
Current board of directors membership positions	• Board member at Jeddah Urban Development Company, a closed joint stock company specializing in the field of urban development, since 2011G. • Board member at Al Nahla Trading and Contracting Company, a limited liability company specializing in trading and contracting, since 2011G. • Board member at the Saudi Arabian Motor Federation, a government organization responsible for the supervision of cars and motorcycles activities, since 2014G.
Other current executive positions	• Managing Director of the Central Region of Saudi Arabian Marketing & Agencies Ltd, a limited liability company specializing in automobile agencies, since 1999G.
Former board of directors membership positions	• Board member at Al-Turki Medical Group Company, a limited liability company specializing in medical field, from 2000G to 2011G.
Previous Professional Experience	• Marketing Consultant at Saudi Arabian Marketing & Agencies Ltd, a limited liability company specializing in automobile agencies, from 2005G to 2010G.

Diwan Sadeq Abdul Bassir Fadl

Nationality	Canadian
Age	63 years old
Current position	Board member at SACO since 2011G
Academic qualifications	Bachelor's degree in Business Administration in 1970G from the University of Dhaka, Bangladesh, and Certificate in Management Accounting in 1978G from the Association of Certified Chartered Accountants in Prince Edward Island, Canada
Current board of directors membership positions	Board member at Willis Saudi Arabia Company Limited since 2008G, a limited liability company specializing in insurance.
Other current executive positions	Financial Consultant at Retaj Distinct Business Investment Company Limited, a limited liability company specializing in business investment, since 2007G.
Former board of directors membership positions	N/A
Previous Professional Experience	• Chief Executive Officer of Traco Group Company, a Saudi limited liability company specializing in the field of diversified investments, from 2005G to 2007G. • Deputy of CEO and CFO of Traco Group Company, a Saudi limited liability company specializing in the field of diversified investments, from 1996G to 2005G. • CFO of Traco Group Company, a Saudi limited liability company specializing in the field of diversified investments, from 1993G to 1996G. • Risk Management Analyst at Marsh & McLennan Companies, Inc., a Canadian joint stock company specializing in risk management and insurance and reinsurance brokerage from 1990G to 1992G. • Regional manager of Marsh & McLennan Bakhsh, a Saudi limited company specializing in risk management and insurance and reinsurance brokerage, from 1986G to 1989G. • Assistant Director of Corporate Banking Division at the Saudi Investment Bank, a Saudi public joint stock company specializing in banking sector from 1983G to 1985G. • An accountant at Emirates NBD, an UAE public joint stock company specializing in the banking sector, from 1981G to 1983G. • An accountant at Abu Dhabi Investment Authority, an UAE public institution specializing in management of public funds, from 1979G to 1981G.

Ahmed Mohammed Salem Al Serry

Nationality	Saudi
Age	66 years old
Current position	Board member at SACO since 2014G
Academic qualifications	Bachelor's degree in Chemical Engineering in 1970G from University of Texas at Austin, United States of America.
Current board of directors membership positions	• Board member at Al Khaleej Computer & Electronic Equipment Company, a limited liability company specializing in the field of Computer Services, since 1980G. • Board member at Al Falak Electronic Equipment & Supplies Company, a limited liability company specializing in the field of Computer Services, since 1981G. • Board member at Al Khaleej Training and Education, a Saudi public joint stock company specializing in training and education, since 1993G. • Board member at Alenaya Company for Medical Sciences and Services, a closed joint stock company specializing in the higher education and medical services, since 2002G. • Chairman of Malaz Capital's Board of Directors, a closed joint stock company specializing in investment, since 2014G.
Other current executive positions	N/A
Former board of directors membership positions	• Board member at Banque Saudi Fransi, a joint stock company specializing in commercial banking services, from 1997G to 2003G. • Chairman of the Audit Committee of Banque Saudi Fransi, a joint stock company specializing in commercial banking services, from 2003G to 2009G. • Board member and Chairman of the Audit Committee of the Salama Cooperative Insurance Company, a joint stock company specializing in cooperative insurance from 2008G and 2013G. • Board member at Malaz Capital, a joint stock company specializing in investment, from 2010G to 2014G.
Previous Professional Experience	• Computer programmer at King Fahd University of Petroleum and Minerals, a Saudi government University, from 1970G to 1974G. • Director of academic services at the Information Technology Center at King Fahd University of Petroleum and Minerals, a Saudi government University, from 1974G to 1975G. • Director of External Services at the Information Technology Center at King Fahd University of Petroleum and Minerals, a Saudi government University, from 1975G to 19765G. • Director of the Information Technology Center at King Fahd University of Petroleum and Minerals, a Saudi government University , from 1976G to 1980G. • Chairman of Al Khaleej Computer & Electronic Systems Co., a limited liability company specializing in information systems services, from 1980 to 2000G. • Director General of the Malaz Group, a limited liability company specializing in investment, from 2000G to 2010G.

Abdul Mohsen Ibrahim Abdulaziz Al Touq

Nationality	Saudi
Age	40 years old
Current position	Board member at SACO since 2014G
Academic qualifications	Bachelor's degree in Business Administration from King Saud University, Riyadh, Saudi Arabia in 1995G.
Current board of directors membership positions	• Chairman of the Saudi Telecom Devices Company's Board of Directors, a limited liability company specializing in electrical contracting, since 1998G. • Chairman of the Saudi Networkers Services Ltd., a limited liability company specializing in the maintenance of communications networks, since 2002G. • Board member at Osool Saudi Investment Holding Company, a limited liability company specializing in real estate, since 2005G. • Board member at Dar Al Tamleek Company, a closed joint stock company specializing in real estate, since 2008G. • Board member at Saudi Fransi Capital, a limited liability company specializing in brokerage, since 2013G. • Board member at AIG-ANB Cooperative Insurance Company, a public joint stock company specializing in cooperative insurance, since 2013G.
Other current executive positions	CEO of Al Touq Company, a limited liability company specializing in general contracting, since 1999G.
Former board of directors membership positions	N/A
Previous Professional Experience	N/A

5.3 Board Secretary

Biography of the Board of Directors' Secretary is as follows:

Mustafa Faisal Mustafa Al-Homsi

Nationality	Syrian
Age	33 years old
Current position	• SACO's legal advisor since 2008G • Secretary of SACO's Board of Directors since 2011G.
Academic qualifications	• Master's degree in the Business Law from the University of St. Clements in 2008G, Damascus, Syria • Bachelor's degree in Law from the Faculty of Law at the University of Damascus in 2006G, Damascus, Syria • He was awarded the title of Professor of Law from the Lawyer Syndicate in 2008G, Damascus, Syria
Current board of directors membership positions	N/A
Other current executive positions	N/A
Previous Professional Experience	A trainee lawyer at Faisal Al-Homsi law firm from 2006G to 2008G.
Former board of directors membership positions	N/A

5.4 Senior Management

The Company is managed by a team with extensive experience, possessing a high level of knowledge and the skills necessary for managing the Company's operations in line with the objectives and directives of the Board of Directors and shareholders.

The Senior Management team consists of the following members:

Table 5.2: Senior Management

Name	Position	Nationality	Age	Direct ownership in the company Pre- Offering	Direct ownership in the company Post- Offering	Date of Appointment to Current Position
Sameer Mohammed Abdulaziz Al Hamidi	Chief Executive Officer and Managing Director	Saudi	55	0.5%	0.35%	2011G
Khalid Mohammed Abdulaziz Al Hamidi	Head of Administration and Personnel Affairs Department	Saudi	58	0.5%	0.35%	2011G
Haytham Mohammed Abdulaziz Al Hamidi	Head of Marketing and Sales Department	Saudi	49	0.5%	0.35%	2011G
Amir Hamd Qassim Kiwan	Head of Finance Department	Lebanese	59	-	-	1993G
Raed Ayoub Ibrahim Ayoub	Head of Information Technology Department	Jordanian	40	-	-	2008G
Nazem Ahmed Qassim	Head of Procurement Department	A Palestinian	51	-	-	2010G
Faisal Sameer Mohammed Al Hamidi	Head of Product Classification and Presentation Department	Saudi	25	-	-	2010G
Mustafa Faisal Mustafa Al-Homsi	Legal Advisor	Syrian	33	-	-	2008G
Maysarah Awad Ahmed Idris	Senior Director of Supply and Support Services	Sudanese	44	-	-	2011G
Mohammed Abdulaziz Alchukroni	Asset Protection Manager	Egyptian	64	-	-	2007G
Muhammad Izz Al-Din Abu Reidah	Director of Marketing Department	Jordanian	34		-	2013G
Ahmed Nael Qar'an	Director of Warehouses	Jordanian	35	-	-	2014G
Saad Hamd Al-Anzi	Director of Personnel Affairs	Saudi	34	-	-	2012G
Ahmed Naja Al Theyabi	Senior Director of Human Resources	Saudi	32	-	-	2011G
Ahmed Mahmoud Hussein Salloum	Head of Services Departments	Egyptian	58	-	-	2005G

Source: The Company

A summary of the biographies of the members of senior management:

Sameer Mohammed Abdulaziz Al Hamidi

Sameer Mohammed Abdulaziz Al Hamidi is the CEO and SACO board member.

Please refer to Section (5-2-3) “Experience and Qualifications of the Members of the Board of Directors” for the detailed biography of Sameer Mohammed Abdulaziz Al Hamidi.

Khalid Mohammed Abdulaziz Al Hamidi

Khalid Mohammed Abdulaziz Al Hamidi is the Head of Administration and Personnel Affairs Department and SACO board member.

Please refer to Section (5-2-3) “Experience and Qualifications of the Members of the Board of Directors” for the detailed biography of Khalid Mohammed Abdulaziz Al Hamidi.

Haytham Mohammed Abdulaziz Al Hamidi

Haytham Mohammed Abdulaziz Al Hamidi is the Head of Marketing and Sales Department and SACO board member.

Please refer to Section (5-2-3) “Experience and Qualifications of the Members of the Board of Directors” for the detailed biography of Haytham Mohammed Abdulaziz Al Hamidi.

Amir Hamd Qassim Kiwan

Nationality	Lebanese
Age	59 years old
Current position	Head of SACO’s Finance Department since 1993G
Academic qualifications	Bachelor’s degree in Business Administration from Beirut Arab University, in 1983G.
Current board of directors membership positions	N/A
Other current executive positions	N/A
Former board of directors membership positions	N/A
Previous Professional Experience	Accounting Manager of Sarah Company, a Saudi limited liability company specializing in the field of trade, from 1983G to 1993G.

Raed Ayoub Ibrahim Ayoub

Nationality	Jordanian
Age	40 years old
Current position	Head of SACO’s IT Department since 2008G
Academic qualifications	Bachelor’s degree in Computer Science from Al Mansour University college in Iraq in 1997G.
Current board of directors membership positions	N/A
Former board of directors membership positions	N/A
Previous Professional Experience	• Head of SACO’s Information Technology Department from 2002G to 2007G. • Computer programmer / systems analyst in the Arabian Electronic Calculator Projects Co. Ltd, a Saudi limited liability company specializing in the field of IT equipment and services from 1998G to 2001G. • Computer programmer in Tantash Group Information Systems (TIS), a limited liability Jordanian company engaged in the design and production of computer software, from 10/02/1998G to 30/08/1998G

Nazem Ahmed Qassim

Nationality	Palestinian
Age	51 years old
Current position	Head of SACO's Procurement Department since 2010G
Academic qualifications	Bachelor's degree in Business Administration from Laydon State University, United States of America in 2001G.
Current board of directors membership positions	N/A
Former board of directors membership positions	N/A
Professional Experience	• Head of of the SACO's best-selling items program from 2006G to 2009G. • Head of SACO's Procurement Department from 1992G to 2005G. • Head of SACO's Warehouse from 1987G to 1992G.

Faisal Sameer Mohammed Al Hamidi

Nationality	Saudi
Age	25 years old
Current position	Head of SACO's Product Classification and Presentation Department since 2010G
Academic qualifications	Bachelor's degree in Commerce, majoring in financial management and having a secondary specialization in Marketing from Concordia University in Canada in 2010G.
Current board of directors membership positions	N/A
Former board of directors membership positions	N/A
Previous Professional Experience	N/A

Mustafa Faisal Al Homsi

Mustafa Faisal Al Homsi is the Legal Advisor and Secretary of SACO's Board of Directors.

Please refer to Section (5-3) "The Secretary of the Board of Directors" for the detailed biography of Mustafa Faisal Al Homsi.

Ahmed Nael Qar'an

Nationality	Jordanian
Age	35 years old
Current position	Director of SACO's Warehouses since 2014G
Academic qualifications	Bachelor's degree in Marketing Management from Yarmouk University in Jordan in 2013G.
Current board of directors membership positions	N/A
Former board of directors membership positions	N/A
Previous Professional Experience	• Distribution Center Operations Manager of Al Sadhan Trading Company from 2005G to 2009G. • Key Account Sales Manager at Alesayi Household Appliances Co. from 2009G to 2012G. • SACO's Distribution Center Operations Manager from 2012G to 2014G

Saad Hamad Al-Anzi

Nationality	Saudi
Age	34 years old
Current position	SACO's Director of Personnel Affairs since 2012G
Academic qualifications	Bachelor's degree in Business Administration from Al-Imam Muhammad Ibn Saud Islamic University in 2013G.
Current board of directors membership positions	N/A
Former board of directors membership positions	N/A
Previous Professional Experience	● Director of Personnel Affairs of Bravo Company from 2007G and 2012G ● Recruitment Manager of the Advanced Electronics Company from 2006G to 2007G. ● Supervisor at Hoshan Company from 2004G to 2006G ● Computer maintenance and networks technician in a specialized computer company from 2000G to 2004G.

Mohammed Izz Al-Din Abu Reidah

Nationality	Jordanian
Age	34 years old
Current position	SACO's Marketing Director since 2013G
Academic qualifications	Bachelor's degree in Business Administration from the Hashemite University in Jordan in 2003G, and a Master's Degree in Marketing from the University of New South Wales in Australia in 2009G.
Current board of directors membership positions	N/A
Former board of directors membership positions	N/A
Previous Professional Experience	● Marketing Manager of Al Mutlaq Furniture company from 2009G to 2013G. ● Marketing and Sales Manager of Audi Company in Australia from January 2009G to August 2009G ● Regional Director of Sales in Salamat Group in Australia from 2007G to 2008G. ● Marketing specialist at AC Nielsen in Australia from November 2006G to January 2007G ● Marketing Research Manager at Al Saedan Real Estate Company from January 2006G to November 2006G ● Research and Marketing Specialist at INMAIA since 2003G to 2005G

Maysarah Awad Ahmed Idris

Nationality	Sudanese
Age	44 years old
Current position	SACO's Senior Director of Supply and Support Services since 2011G
Academic qualifications	Bachelor's degree in Law from Cairo University, Khartoum branch in 1992G, and a Diploma in Business Administration from the University of Cairo, Khartoum branch in 1997G.
Current board of directors membership positions	N/A
Former board of directors membership positions	N/A
Professional Experience	● Director of central warehouses at Giant Stores Company from 1997G to 2007G. ● Director of warehouses of Panda Company from 2007G to 2009G. ● Logistics manager of the Arab Supply Company from 2009G to 2011G.

Ahmed Mahmoud Hussein Salloum

Nationality	**Egyptian**
Age	58 years old
Current position	SACO's Head of Services Departments since 2005G
Academic qualifications	Bachelor's degree in Civil Engineering from Alexandria University in 1979G.
Current board of directors membership positions	N/A
Former board of directors membership positions	N/A
Previous Professional Experience	● Project Manager of Al Hamidi Contracting Est. Company from 1992G to 2001G. ● SACO's Procurement Manager from 2001G to 2005G.

Mohammed Abdulaziz AlShakrooni

Nationality	**Egyptian**
Age	64 years old
Current position	SACO's Asset Protection Manager since 2007G.
Academic qualifications	Bachelor's degree in Commerce from Helwan University in Cairo in 1976G, and a Master's Degree in Economics from the Higher Institute of Islamic Studies in Cairo in 1979G.
Current board of directors membership positions	N/A
Former board of directors membership positions	N/A
Previous Professional Experience	● Head of Accounting Department at SACO from 1980G to 1989G. ● Internal Audit Manager at Al Hamidi Contracting Est. Co. from 1989G to 2001G.

Ahmed Naja Al Theyabi

Nationality	Saudi
Age	32 years old
Current position	SACO's Senior Director of HR since 2011G
Academic qualifications	Bachelor's degree in Business Administration from King Abdulaziz University in Jeddah in 2012G.
Current board of directors membership positions	N/A
Former board of directors membership positions	N/A
Previous Professional Experience	● Public Relation officer of Al Sadhan Trading Company from 2001G to 2006G ● Director of Human Resources and Administration at Al Mojaz Company from 2006G to 2011G.

5.5 Summary of employment contracts of members of the Board of Directors and executive management

The Company has entered into employment contracts with executive members of the Board. These contracts are renewable and subject to the Labor Law. The contracts include a number of benefits, such as providing means of transportation or granting a monthly allowance for transportation or housing or both, along with providing medical care to the executive board member, his wife and children. For more information about the remuneration of the Board of Directors, please refer to Section (5-7) "Remuneration of Board Directors and Senior Management."

The Company has concluded employment contracts with all members of the senior management in which their fees and remuneration are identified depending on their qualifications and experience. These contracts include a number of benefits such as providing transportation or granting a monthly allowance for transportation or housing, or both. These contracts are renewable and subject to the Saudi Labor Law.

The tables below show the main details of the employment contracts in question.

Table 5.3: Summary of employment contracts of members of the Board, Chief Executive Officer and the Board Secretary*

Sr.	Name	Position	Nationality	The date of the contract with SACO	Date of participation in SACO management through the management contract concluded with Al Hamidi Contracting Est. Co	The date of the contract termination with SACO
1	Sameer Mohammed Abdulaziz Al Hamidi	Chief Executive Officer	Saudi	01/01/1991G**	-	One year employment contract, automatically renewed for similar periods. ***
2	Khalid Mohammed Abdulaziz Al Hamidi	Head of Administration and Personnel Affairs Department	Saudi	01/01/2014G****	1999G	One year employment contract, automatically renewed for similar periods.
3	Haytham Mohammed Abdulaziz Al Hamidi	Head of Marketing and Sales Department and a board member	Saudi	01/01/2014G****	1993G	One year employment contract, automatically renewed for similar periods.

Sr.	Name	Position	Nationality	The date of the contract with SACO	Date of participation in SACO management through the management contract concluded with Al Hamidi Contracting Est. Co	The date of the contract termination with SACO
4	Mustafa Faisal Mustafa Al-Himsi	Board's Secretary and Legal Advisor	Syrian	02/04/2008G	-	One year employment contract, automatically renewed for similar periods.

Source: The Company

* The Company has not concluded service contracts with the board members who have not been mentioned in this table.

**Sameer Al Hamidi began working as a General Manager in 1985G, but the contract between him and the Company was only signed in 1991G.

*** In accordance with Article (55)of the Labor Law, if the contract is renewed for two consecutive terms or if the original contract term and the renewal period amount to three years, whichever is less, and the two parties continue to implement it, the contract shall become an indefinite term contract. Therefore, this contract is an indefinite term contract.

**** It represents the date of employment contract with SACO. He was previously performing the same tasks through a management contract concluded with Al Hamidi Contracting Est. Company (for more information on the management contract concluded with Al Hamidi Contracting Est. Company, please refer to Section 11-11).

Table 5.4: Summary of senior management contracts in the Company

Sr.	Name	Position	Nationality	Contract Date	Contract termination date
1.	Amir Hamd Qassim Kiwan	Head of Finance Department	Lebanese	19/06/1993G	One year employment contract, automatically renewed for similar periods.
2.	Raed Ayoub Ibrahim Ayoub	Head of Information Technology Department	Jordanian	01/01/2002G	One year employment contract, automatically renewed for similar periods.
3.	Nazem Ahmed Qassim	Head of Procurement Department	Palestinian	01/09/1987G	One year employment contract, automatically renewed for similar periods.

Source: The Company

Declarations of Directors, Senior Management, and Secretary of the Board

The Directors, Senior Management and Secretary of the Board declare that:

- They have not at any time been declared bankrupt or been subject to bankruptcy proceedings.
- They have not been appointed in the five past years preceding the publication of this Prospectus, in an administrative or supervisory position in an insolvent company.
- Except for their Qualification Shares and as disclosed in Section 5-3 "Members of Board of Directors" they do not themselves, nor do any of their relatives or affiliates, have any direct or indirect interests in the shares or debt instruments of the Company.
- Except as disclosed in Section 11-10 of this Prospectus "Transactions with Related Parties", they do not themselves, nor do any relatives or affiliates, have any current or contemplated material interests in the business of the Company.

5.6 Board committees and their responsibilities

The Board has established a number of committees, as required, to enable it to ensure the best performance of the Company's management. In this respect, the Board has ensured the following:

- All committees adopt approved rules that identify their roles and responsibilities.
- Each committee's powers are clearly specified.
- Minutes are prepared for all meetings and they are reviewed and approved by all Directors.

The Company currently has the following committees in place:

5.6.1 Executive Committee

On 15/06/1432H (corresponding to 18/05/2011G), the Board formed the Executive Committee. Rules relating to the selection of the Executive Committee members, their term of office, their duties and responsibilities were approved in the meeting held on 23/09/1435H (corresponding to 20/07/2014G).

The Executive Committee undertakes the following responsibilities:

- The Executive Committee shall review and recommend to the Board of Directors the following:
  - The organizational and functional structure/ reorganization / restructuring of the Company;
  - The Company's work policies, except the policies that are specific to other committees of the Board which include financial and accounting policies, compensation and remuneration policies, and internal audit manual;
  - Strategies and plans relating to the Company's business;
  - The Company's annual budget and related work plans;
  - Joint Ventures, Mergers and Acquisitions in accordance with the Company's plans;
  - Sale of Company land and properties;
  - Dividends Distribution (Cash or Shares);
  - Renewing or canceling credit facility agreements concluded with banks;
  - Reviewing, recommending and writing off customers' receivables.
- As shown in the approved authority matrix, the Executive Committee shall assume the following:
  - Approving investments in new projects, according to the Company's investment plan;
  - Approving capital purchases that exceed the approved budget of the Company;
  - Approving operating expenses that exceed what is specified in the approved budget of the Company;
  - Approving the amendment of the Company's approved budget items;
  - Selling the assets of the Company in its net carrying amount;
  - Re-evaluating the assets of the Company;
  - Approving the write-off of accounts such as inventory, fixed assets, except customer receivables;
  - Approving the annual / periodic inventory (such as fixed assets, inventory, cash), including differences resulting from inventory.
- The Executive Committee shall perform the following tasks to monitor and supervise the conduct of the Company's business:
  - Receiving reports and following up on the implementation and completion of major projects and expansion plans;
  - Receiving reports on the Company-wide status of risks, and effectiveness and efficiency of the workflow in the risk management unit;
  - Receiving and discussing reports provided by management on important legal and judicial matters, and submitting the necessary recommendations thereon to the Board of Directors;
  - Performing any other duties which may be delegated by the Board of Directors;

The Executive Committee consists of three (3) members appointed by the Board of Directors for a period of three (3) years.

The Executive Committee consists of the following members:

Table 5.5 Members of the Executive Committee

	Name	Position
1	Sameer Mohammed Abdulaziz Al Hamidi	Chairman
2	Amir Hamd Qassim Kiwan	Member
3	Diwan Sadeq Abdul Bassir Fadl	Member

Source: The Company

The following is a brief overview of the members of the Executive Committee:

Sameer Mohammed Abdulaziz Al Hamidi

Chairman of the Executive Committee and a SACO board member.

Please refer to Section 5-2-3 "Experience and Qualifications of the Members of the Board of Directors" for the detailed biography of Sameer Mohammed Abdulaziz Al Hamidi.

Amir Hamd Qassim Kiwan

A member of SACO's Executive Committee

Please refer to Section 5-4 "Senior Management" for the detailed biography of Amir Hamd Qassim Kiwan.

Diwan Sadeq Abdul Bassir Fadl

A member of the Executive Committee and a SACO board member.

Please refer to Section 5-2-3 "Experience and Qualifications of the Members of the Board of Directors" for the detailed biography of Diwan Sadeq Abdul Bassir Fadl.

5.6.2 Audit Committee

Rules relating to the selection of Audit Committee members, their term of office and their duties and responsibilities were approved in the meeting held on 23/09/1435H (corresponding to 20/07/2014G).

On 23/09/1435H (corresponding to 20/07/2014G), the Board formed the Audit Committee.

The Audit Committee undertakes the following responsibilities:

- Supervising the management of the Company's internal audit in order to verify its effectiveness in the implementation of works and tasks assigned by the Board of Directors;
- Studying the internal control system and making observations and recommendations in this regard to the Board of Directors;
- Reviewing the internal audit plan and procedures including the views and recommendations of the Committee in this regard;
- Reviewing internal audit reports and ensuring implementation of corrective measures recommended therein;
- Making recommendations to the Board of Directors on the appointment or dismissal of Chartered Accountants and determination of their fees, taking into account their independence while providing such recommendations;
- Supervising the activities of the Chartered Accountants and approving any activities outside the scope of the audit work initially assigned to them during the performance of their duties;
- Reviewing the audit plan with the auditor and making comments thereon;
- Reviewing auditor comments on the financial statements and following-up on the procedures taken in this regard;
- Reviewing interim and annual financial statements before submission to the Board of Directors and making observations and recommendations on these statements to the Board of Directors;

- Reviewing the applicable accounting policies and advising the Board of Directors on recommended updates or amendments.

The Audit Committee consists of three (3) members appointed by the Board of Directors for a period of three (3) years.

The following members of the Audit Committee were appointed in the meeting held on 23/09/1435H (corresponding to 20/07/2014G):

Table 5.6 Audit Committee Members

	Name	Position
1	Abdel Rahman Amin Hassan Gawah	Chairman
2	Abdul Mohsen Ibrahim Abdulaziz Al Touq	Member
3	Ahmed Bin Mohammed Salem Al Serry	Member

Source: The Company

The following is a brief overview of the members of the Audit Committee:

Abdel Rahman Amin Hassan Gawah

Chairman of the Audit Committee and Chairman of SACO's Board of Directors

Please refer to Section 5-2-3 "Experience and Qualifications of the Members of the Board of Directors" for the detailed biography of Abdel Rahman Amin Hassan Gawah.

Abdul Mohsen Ibrahim Abdulaziz Al Touq

A member of Audit Committee and SACO's board member

Please refer to Section 5-2-3 "Senior Management" for the detailed biography of Abdul Mohsen Ibrahim Abdulaziz Al Touq.

Ahmed Mohammed Salem Al Serry

A member of Audit Committee and SACO's board member

Please refer to Section 5-2-3 "Experience and Qualifications of the Members of the Board of Directors" for the detailed biography of Ahmed Mohammed Salem Al Serry.

5.6.3 Nomination and Remuneration Committee

Rules relating to the selection Nomination and Remuneration Committee members, their term of office and their duties and responsibilities were approved in the general assembly meeting held on 23/09/1435H (corresponding to 20/07/2014G).

The Board of Directors formed the Nomination and Remuneration Committee in its meeting held on 14/04/1436H (Corresponding to 03/02/2015G).

The Nominations and Remuneration Committee undertakes the following responsibilities:

- Identifying and nominating nominees to fill SACO's Board of Directors vacancies (if any) or when new members' alternatives become available in the Board of Directors. The Committee shall make recommendations to the Shareholders' General Assembly of qualified nominees for board membership provided that any person convicted of crimes involving dishonesty or trust are not nominated.
- Developing clear policies regarding the indemnities and remunerations of the Directors, Board committee members and Senior Management; in accordance with the Company's By-laws and by following standards related to performance;
- Ensuring the preparation of an annual report containing detailed compensations and remunerations paid to the Board members and Senior Management in order to be included in the Company's annual report;
- Supervising and advising the Board of Directors with respect to preparation of the policies and plans regulating the Company's remunerations programs;

- Ensuring on an annual basis the independence of the independent members and the absence of any conflict of interests in case a Board member also acts as a member of the Board of Directors of another company;
- Reviewing the structure of the Board of Directors and making recommendations regarding the possible changes to the Board of Directors;
- Determining the strengths and weaknesses of the Board of Directors and recommending remedies in keeping with the Company's interests;
- Reviewing the required skills, capabilities and work experiences on an annual basis in order to enhance the Board's qualifications and submitting recommendations thereon to the Board of Directors;
- Issuing recommendations to the Board of Directors regarding all committee nominees;
- Recommending nominees to enhance the Board's ability to effectively manage and direct the Company's affairs;
- Ensuring there is an appropriate induction and orientation program in place for new Directors and provide continuous education program for all Directors;
- Determining the amount of time to be devoted by every member to perform his/her responsibilities relating to their membership in the Board or its committees;
- Assisting the Board in selecting and training the nominees for Board membership and the preparation of a long-term succession plan when necessary;
- Ensuring that the CEO has drafted the necessary procedures for the transfer of his responsibilities in a fast and efficient manner in case he unexpectedly leaves the Company or becomes unqualified. The Committee shall review such procedures with the CEO and also obtain his recommendations on any long-term succession arrangements;
- Laying down standards to evaluate the performance of the CEO. Such standards must be reported and agreed on with the CEO;
- Assisting the Board in preparation of standards to evaluate the Chairman of the Board's performance. Such standards shall be reported and agreed on with the Chairman of the Board;
- It is mandatory for the Committee to submit its recommendation before any member of the Board, who is not an employee in the Company, enters into a consulting arrangement with the Company;
- Making recommendations concerning remuneration policies, scale of salaries and other benefits for all the employees in the Company and its subsidiaries (if any);
- Making recommendations on the Company's goals related to the CEO remuneration;
- Annually evaluating the CEO's performance to ensure proper leadership of the Company in the long and short terms. The CEO is not allowed to attend the meeting sessions to discuss his performance or remuneration in case he is a member in said committee;
- Making a recommendation to the Board of Diretors in order to approve all remunerations of the Board committee members, Board Secretary and Senior Management.
- Annually reviewing the remuneration of the Directors and other committees and making recommendations to the Board in connection therewith;
- Preparing an annual report on the remunerations paid to Senior Management in order to be included in the Company's annual report in accordance with the applicable rules and regulations, pursuant to Article (9) of the Corporate Governance Regulations promulgated by the CMA;
- Reviewing its performance at least once per year to determine whether it is functioning effectively and agreeing on the necessary steps to improve its members' performance; The Committee shall report on its performance to the Board;
- Performing other tasks and responsibilities assigned by the Board from time to time.
- Reviewing, in consultation with the CEO, the succession plan so that there is a sufficient number of internal nominees qualified to fill senior and leadership positions, identify opportunities, deficiencies in performance and subsequent steps as a part of the succession plan and improve the Company's executive competencies as they all shall be reviewed with the Committee.

The Nomination and Remuneration Committee is composed of three (3) members appointed by the Board of Directors for three (3) years.

The following members were appointed in the Nomination and Remuneration Committee in the Board of Directors' meeting held on 14/04/1436H (Corresponding to 03/02/2015G):

Table 5.7: The Nomination and Remuneration Committee Members

	Name	Title
1	Khalid Mohammed Abdulaziz Al Hamidi	Chairman
2	Ahmed Mohammed Salem Al Serry	Member
3	Abdul Mohsen Ibrahim Abdulaziz Al Touq	Member

Source: The Company

The following is a brief overview of the members of Nomination and Remuneration Committee:

Khalid Mohammed Abdulaziz Al Hamidi

Chairman of Nomination and Remuneration Committee and a SACO board member.

Please refer to Section 5-2-3 "Experience and Qualifications of the Members of the Board of Directors" for the detailed biography of Khalid Mohammed Abdulaziz Al Hamidi.

Ahmed Bin Mohammed Salem Al Serry

Member of the Nomination and Remuneration Committee and a SACO board member.

Please refer to the section 5.2.3 "Experience and Qualifications of the Members of the Board of Directors" for the detailed biography of Ahmed Bin Mohammed Salem Al Serry .

Abdul Mohsen Ibrahim Abdulaziz Al Touq

Member of Nomination and Remuneration Committee and a SACO board member.

Please refer to the section 5.2.3 "Experience and Qualifications of the Members of the Board of Directors" for the detailed biography of Abdul Mohsen Ibrahim Abdulaziz Al Touq.

5.6.4 Corporate Governance

The Corporate Governance aims to regulate the relationships between the Company, the Senior Management, the Board of Directors, shareholders and other relevant parties, so that it can provide the method which identifies the Company's goals and ways of achieving them. The Company has a clear division of responsibilities between the Board of Directors and Senior Management.

The Company adopts high standards of corporate governance. The Company commits to comply with the Corporate Governance Regulations promulgated by the CMA and considers it an important factor of its success, which requires the implementation of a clear framework for transparency and disclosure in order to make sure that the Board of Directors works for achieving the best interests for the shareholders and provides a clear and fair picture of the Company's financial and operation results.

With regard to the Company's commitment to the Corporate Governance Regulations, as is known, the mandatory articles of the Corporate Governance Regulations are paragraphs (i) and (j) of Article 5 and Article 9, paragraphs (b), (c) and (d) of Article 10 and paragraphs (c), (e) and (g) of Article 12, 14 and 15.

The Company complies with paragraph (i) of Article 5, as the shareholders are allowed to peruse the minutes of General Assembly, and paragraphs (c) and (e) of Article 12, as the majority of the members of the Board of Directors shall be non-executive members. The number of independent Directors is the required number as per paragraph (e) of Article 12. The Company complies with Articles 14 and 15, as the Board of Directors formed the Audit Committee consisting of three non-executive Board members and Nomination and Remuneration Committee on 23/09/1435H (corresponding to 20/07/2014G). The Company laid down the internal governance regulations which include all mandatory articles stated in Article 10 of Corporate Governance Regulations, which were approved by the Board in its session held on 23/09/1435H (corresponding to 20/07/2014G).

The Board of Directors and Ordinary General Assembly held on 23/09/1435H (corresponding to 20/07/2014G) approved the internal governance regulations of the Company:

Table 5.8: The Company's internal policies related to governance

	Bylaws	Duties
1	Policy of transactions with related parties	This policy aims at identifying the related parties and approving a framework of their dealings with the Company. In addition, this policy draws the rules and controls needed to transparently deal with related parties on an arms' length basis without any preferential treatment.
2	Disclosure and transparency policy	This policy aims at identifying the basic principles and regulatory requirements that must be followed when disclosing information and the Company's results of operations to the public. This policy also aims at ensuring disclosure is made to public in a timely, complete and accurate manner according to the Listing Rules and Corporate Governance Regulations issued by the CMA. This policy includes all employees, Senior Management, the Company's consultants, Board of Directors and other representatives authorized or appointed to act on behalf the Company.
3	Policies, standards and procedures of the membership of the Board	This policy aims at laying down specific and clear policies, standards and procedures of the membership of the Board of Directors and putting the same into force.
4	Shareholders' Guide	This guide explains the Company's shareholders rights and obligations pursuant to the applicable regulations and rules and indicates the shareholders' right to vote in general assembly meetings and obtain the Company's financial results and the shareholders right to dividends in order to ensure the Company's shareholders are dealt with in a fair and equitable manner.
5	Board of Directors' Guide	The Board of Directors' Guide is designed to identify the powers, responsibilities and functions of the Board in details, taking into account that the Board assumes all necessary responsibilities for managing the Company, even in case of appointment of committees or delegation of some of its powers to the Management. Such guide explains the aspects relating to selection and formation of the Board of Directors, its committees and the method of appointment of its members, the way the Board meetings are held and its quorum, voting on the Board resolutions and other matters relating to the Boards activities.
6	Conflict of Interests policy	This policy is concerned with protection of the Company's interests, through organizing the possible conflict of interests with every Board member, Senior Management, employees, shareholders and other relevant authorities and dealing with the Company's assets and facilities or through dealing with related parties.
7	Internal Audit Charter	This charter aims to clarify the tasks, scope of work, responsibilities, and powers of the Company's internal audit department, to ensure the independency and objectivity. It also identifies the internal audit department relationship with the other departments in the Company.
8	Internal Audit's Guide	This guide aims to achieve the highest level of commitment to the leading international standards and professional practices in the performance of the internal audit department activities and enhance the department level in line with the Company's objectives and values.
9	Nomination and Remuneration Committee's Charter	This charter governs the operation of the Company's Nomination and Remuneration Committee and explains the Committee's responsibilities and the way they are implemented, including its formation, members' number, structure, procedures and requirements of the membership therein, in addition to its powers and other matters regulating its works.
10	Executive Committee Charter	The Executive Committee charter lays down the Committee's duties and responsibilities, including the way such responsibilities are implemented and its structure, work procedures and powers.
11	Audit Committee Charter	Audit Committee charter lays out the details on regulating the Committee in terms of its formation, independency, tasks and responsibilities, powers, meetings procedures, etc.
12	Risk Management Framework	Risk Management Framework is designed to enhance the Company's culture in connection with dealing with risks facing the Company and direct the departments' heads to cover the material risks in a comprehensive manner compared to dealing with the risks that are obvious or urgent sometime.

Source: The Company

Regarding paragraph (j) of Article 5 and Article 9 and paragraph (g) of Article 12 of Corporate Governance Regulations, the Company shall not be committed to abide by such articles as of the date of this Prospectus, because the Company is currently not listed. The Company undertakes to comply with such articles after the issuance of the CMA's resolution approving the registration of the Company's shares on the Saudi Stock Exchange and its listing.

5.6.5 Company's Undertakings Post Listing

After the listing, the Company commits :

- To abide by the provisions of the Listing Rules and the Corporate Governance Regulations when drafting the Board of Director's report.
- To comply with all the mandatory articles contained in the Corporate Governance Regulations immidiately after the Listing.
- To inform the CMA of the dates of the general assembly to be held by the Company after the listing so that the CMA's representative can attend the general assembly.
- To disclose on an annual basis, at the General Assembly, all transactions and contracts entered into with the Company's related parties pursuant to Corporate Governance Regulations, in order to obtain shareholder approval, provided that any related party is prohibited from voting thereon.
- To disclose on an annual basis, at the General Assembly, any conflict of interests between the business of the Company, major shareholders and members of the Board of Directors or the companies in which they have shares, in order to obtain shareholder approval, provided that any related party is prohibited from voting thereon.

5.7 Remuneration of the Board and Senior Management

Neither the members of the Board of Directors nor Senior Management members have powers to vote on their remuneration or indemnities. Nor do they have powers to borrow from the Company or vote on a contract or an arrangement in which they have a material interest.

Total expenses paid to the Board were SAR (0) for the year ended 31 December 2014G, SAR (0) for the year ended 31 December 2013G, SAR (0) for the year ended 31 December 2012G and SAR (0) for the year ended 31 December 2011G. The Directors waived their right of any remuneration entitled to them during their term which ended on 20/07/2014G.

Total expenses paid to Senior Management were five million two hundred and twenty-six thousand three hundred and seventy-three Saudi Riyals (SAR 5,226,373) for the year ended 31 December 2014G, four million nine hundred and twelve thousand, one hundred and thirty-one Saudi Riyals (SAR 4,912,131) for the year ended 31 December 2013G, four million seven hundred and five thousand eight hundred and twenty-six Saudi Riyals (SAR 4,705,826) for the year ended 31 December 2012G, and four million three hundred and twenty-seven thousand eight hundred and sixty four Saudi Riyals (SAR 4,327,864) for the year ended 31 December 2011G. Such expenses include salaries, housing and other benefits.

Table 5.9: Remuneration and benefits paid to the Members of the Board of Directors and Senior Management during the years 2011G, 2012G, 2013G and 2014G

	2011G (SAR)	2012G (SAR)	2013G (SAR)	2014G (SAR)
Board of Directors	-	-	-	-
Senior Management	4.327.864	4.705.826	4.912.131	5.226.373

Source: The Company

5.8 Conflict of Interest

The Company's By-laws or any of its internal policies and regulations do not grant powers enabling a member of the board of directors to vote on a contract or proposal in which he has a direct or indirect material interest, in accordance with Article 69 of the Companies' Law which states that a member of the board of directors should not have any interest whether directly or indirectly, in the transactions or contracts made for the account of the company, except with an authorization from the Ordinary General Assembly, to be renewed annually. Pursuant to the aforementioned article, a member must inform the Board of Directors of any personal interest he may have in the transactions or contracts made for the account of the Company. The Chairman of the Board of Directors shall inform the Ordinary General Assembly, when it convenes, of the transactions and contracts in which any member has a personal interest. Such communication shall be accompanied by a special report from the auditor. Such declaration must be recorded in the minutes of the board meeting, and the interested member shall not participate in voting on the resolution to be adopted in this respect. Based on the foregoing, the members of the Board of Directors undertake to comply with the following:

- Complying with the provisions of articles 69 and 70 of the Companies' Law and Article 18 of the Corporate Governance Regulations.
- Refraining from voting on all contracts entered into with related parties in the general assembly meetings.
- Avoiding participating in any business competitive with that of the Company, and all related party transactions will be made on an arm's length basis according to Article 70 of the Companies' Law.

The table below presents information on members in the Company's Board of Directors engaged in companies conducting activities similar to or competing with that of the Company business at the date of this Prospectus.

Table 5.10: Directors who engage through their membership on the Board or their capital shareholding in companies conducting businesses similar to or competing with the Company's business

Another company related to a board director	Director title in the related company		Nature of the Related Company's Business	Does it compete?
	Owner	Director/ Manger		
Abdel Rahman Amin Hassan Gawah				
Saudi Fransi Capital	No	Yes	Brokerage	No – because Saudi Fransi Capital conducts brokerage business as at the date of this Prospectus, which does not compete with SACO's business.
Mitha International Company	Yes	No	Contracting	No – because Mitha International Company conducts contracting business as at the date of this Prospectus, which does not compete with SACO's business.
Khalid Mohammed Abdulaziz Al Hamidi				
Al-Yamamah Press Establishment	No	Yes	Press and Publication	No – because Al-Yamamah Press Establishment conducts press and publication activities as at the date of this Prospectus, which does not compete with SACO.
Al Hamidi Contracting Est. Co.	Yes	Yes	Contracting	No – because Al Hamidi Contracting Est. Co. does not conduct any activity except having ownership in SACO as at the date of this Prospectus, which does not compete with SACO.
Mohammed Abdulaziz Al Hamidi Sons Holding Company	Yes	Yes	Contracting	No – because Mohammed Abdulaziz Al Hamidi Sons Holding Company does not conduct any activity except having ownership in Al Hamidi Contracting Est. Co. as at the date of this Prospectus, which does not compete with SACO.
Mohammed Abdulaziz Al Hamidi Sons Insurance Agency	Yes	Yes	Insurance agencies	No - because Mohammed Abdulaziz Al Hamidi Sons Insurance Agency conducts insurance agencies-related activities as at the date of this Prospectus, which does not compete with SACO.
Sameer Mohammed Abdulaziz Al Hamidi				
Ace International	No	Yes	Equipment and tools trade	No—because Ace International is SACO's key suppliers at the date of this Prospectus.
Deutsche Securities Saudi Arabia	No	Yes	Financial Services	No – Deutsche Securities Saudi Arabia conducts financial services as at the date of this Prospectus, which does not compete with SACO's business.
Astra Industrial Group	No	Yes	Industrials	No – Astra Industrial Group invests in industrial sector as at the date of this Prospectus; which does not compete with SACO.

Another company related to a board director	Director title in the related company		Nature of the Related Company's Business	Does it compete?
	Owner	Director/ Manger		
Al Hamidi Contracting Est. Co.	Yes	Yes	Contracting	No – because Al Hamidi Contracting Est. Co. does not conduct any activity except having ownership in SACO as the date of this Prospectus, which does not compete with SACO.
Mohammed Abdulaziz Al Hamidi Sons Holding Company	Yes	Yes	Contracting	No – because Mohammed Abdulaziz Al Hamidi Sons Holding Company does not conduct any activity except having ownership in Al Hamidi Contracting Est. Co. as at the date of this Prospectus, which does not compete with SACO.
Mohammed Abdulaziz Al Hamidi Sons Insurance Agency	Yes	Yes	Insurance agencies	No - because Mohammed Abdulaziz Al Hamidi Sons Insurance Agency conducts insurance agencies-related activities as at the date of this Prospectus, which does not compete with SACO.
Haytham Mohammed Abdulaziz Al Hamidi				
National Petrochemical Company (Petrochem)	No	Yes	Petrochemicals	No – because National Petrochemical Company (Petrochem) conducts activities related to petrochemicals sector as at the date of this Prospectus, which does not compete with SACO.
Rana Investment Company	No	Yes	Financial Services	No – because Rana Investment Company conducts financial services as at the date of this Prospectus, which does not compete with SACO's business.
Al Hamidi Contracting Est. Co.	Yes	Yes	Contracting	No – because Al Hamidi Contracting Est. Co. does not conduct any activity except having ownership in SACO as the date of this Prospectus, which does not compete with SACO.
Mohammed Abdulaziz Al Hamidi Sons Holding Company	Yes	Yes	Contracting	No – because Mohammed Abdulaziz Al Hamidi Sons Holding Company does not conduct any activity except having ownership in Al Hamidi Contracting Est. Co. as at the date of this Prospectus, which does not compete with SACO.
Mohammed Abdulaziz Al Hamidi Sons Insurance Agency	Yes	Yes	Insurance agencies	No - because Mohammed Abdulaziz Al Hamidi Sons Insurance Agency conducts insurance agencies-related activities as at the date of this Prospectus, which does not compete with SACO.
Samauel Abdullah Taha Bakhsh				
Marketing Services & Commercial Projects Operation Company, a 25% of its shares owned by Retaj Distinct Business Investment Company, owned by Samauel Abdullah Taha Bakhsh with a percentage share of 40%	Yes	No	Toys Sector	Yes – because Marketing Services & Commercial Projects Operation Company conducts activities related to toys sales sector as at the date of this Prospectus. Such activity is competitive with an immaterial category of products offered by SACO representing 1.6% of the Company's total revenues.
Abrar International Holding Company	Yes	Yes	Real estate development	No – because Abrar International Holding Company conducts activities related to real estate development as at the date of this Prospectus, which does not compete with SACO.

Another company related to a board director	Director title in the related company		Nature of the Related Company's Business	Does it compete?
	Owner	Director/ Manger		
Retaj Distinct Business Investment Company Limited	Yes	Yes	Business Investment	No – because Retaj Distinct Business Investment Company Limited conducts activities related to business investment as at the date of this Prospectus, which does not compete with SACO.
Wardieh Holdings Incorporation	No	Yes	Petroleum	No – because Wardieh Holdings Incorporation conducts activities related to petroleum sector as at the date of this Prospectus, which does not compete with SACO.
Jeddah Economic Company	No	Yes	Contacting	No – because Jeddah Economic Company conducts activities related to contracting sector as at the date of this Prospectus, which are not competitive with SACO.
Willis Saudi Arabia Company Limited	No	Yes	Insurance	No – because Willis Saudi Arabia Company Limited conducts insurance services as at the date of this Prospectus, which does not compete with SACO.
Arabian Bemco Contracting Co.	Yes	Yes	Contracting	No – because Arabian Bemco Contracting Co. conducts activities related to contracting sector as at the date of this Prospectus, which does not compete with SACO.
Samco Company	Yes	Yes	Maritime transport	No – because Samco Company conducts activities related to maritime transport as at the date of this Prospectus, which does not compete with SACO.
Bandar Khalid Ibrahim Al-Turki				
Jeddah Urban Development Company	No	Yes	Urban Development	No – because Jeddah Urban Development Company conducts activities related to urban development as at the date of this Prospectus, which does not compete with SACO.
Al Nahla Company for Trading and Construction	Yes	Yes	Trading and contracting	No – because Al Nahla Company for Trading and Construction conducts activities related to trading and contracting sector as at the date of this Prospectus, which does not compete with SACO.
Saudi Arabian Motor Federation	No	Yes	Supervision of cars and motorcycles activities	No – because Saudi Arabian Motor Federation supervises cars and motorcycles activities as at the date of this Prospectus, which does not compete with SACO.
Diwan Sadeq Abdul Bassir Fadl				
Willis Saudi Arabia Company Limited	No	Yes	Insurance	No – because Willis Saudi Arabia Company Limited conducts insurance services as at the date of this Prospectus, which does not compete with SACO.
Ahmed Mohammed Salem Al Serry				
Al Khaleej Computer & Electronic Equipment Co.	Yes	Yes	Computer Services	No – because Al Khaleej Computer & Electronic Equipment Co. conducts computer services as the date of this Prospectus, which does not compete with SACO.
Al Falak Electronic Equipment & Supplies Co.	Yes	Yes	Computer Services	No - because Al Falak Electronic Equipment & Supplies Co. conducts computer services as the date of this Prospectus, which does not compete with SACO.
Gulf Company for Training and Education	No	Yes	Education and Training	No – because Gulf Company for Training and Education conducts activities related to education and training sector as at the date of this Prospectus, which does not compete with SACO.

Another company related to a board director	Director title in the related company		Nature of the Related Company's Business	Does it compete?
	Owner	Director/ Manger		
Alenaya Company for Medical Sciences and Services	No	Yes	High education and medical prescriptions	No – because Alenaya Company for Medical Sciences and Services conducts activities related to High education and medical prescriptions sector as at the date of this Prospectus, which does not compete with SACO.
Al Malaz Capital	Yes	Yes	Investment	No – because Malaz Capital conducts activities related to investment sector as at the date of this Prospectus, which does not compete with SACO.
Abdul Mohsen Ibrahim Abdulaziz Al Touq				
Saudi Telecom Company	No	Yes	Electrical contracting	No – because Saudi Telecom Devices Company conducts activities related to electrical contracting sector as at the date of this Prospectus, which does not compete with SACO.
Saudi Networkers Services Ltd.	No	Yes	Maintenance of communications networks	No - Saudi Networkers Services Ltd. Conducts activities related to the maintenance of networks as at the date of this Prospectus, which does not compete with SACO.
Assets for Investment Saudi Holding Company	No	Yes	Real Estate Properties	No – because Assets for Investment Saudi Holding Company conducts activities related to real estate sector as at the date of this Prospectus, which does not compete with SACO.
Dar Al Tamleek Co.	No	Yes	Real Estate Properties	No – because Dar Al Tamleek Co conducts activities related to real estate sector as at the date of this Prospectus, which does not compete with SACO.
Saudi Fransi Capital	No	Yes	Brokerage	No – because Saudi Fransi Capital conducts activities related to brokerage as at the date of this Prospectus, which does not compete with SACO.
AIG-ANB Cooperative Insurance Company	No	Yes	Cooperative insurance	No – because AIG-ANB Cooperative Insurance Company conducts activities related to cooperative insurance as at the date of this Prospectus, does not compete with SACO.

Source: The Company

5.9 Commitment to Saudization

The Company follows an ambitious policy to implement the Saudization program. The Company is one of the companies supportive of the government's goals to eliminate unemployment, and create job opportunities for its citizens. The Company always seeks to increase its efforts to support Saudization in all respects.

The Company is committed to employ Saudi nationals in different fields to maintain its statutory Saudization ratio as imposed on public institutions in the Kingdom of Saudi Arabia including the Company, which shall appoint and retain a certain number of Saudi employees.

A program for encouraging establishments to Saudize jobs "Nitaqat" was approved under the Minister of Labor Decree No. (4040) dated 12/10/1432H (10/09/2011G), based on Cabinet Resolution No. (50) dated 21/05/1415H (corresponding to 27/10/1994G), which began to be applied as of 12/10/1432H (corresponding to 10/09/2011G). The Ministry of Labor adopted the Nitaqat program to motivate establishments to Saudize jobs and assess their compliance therewith based on several categories: Platinum category, Green category (this category is in turn divided into low green, mid green and high green), Yellow category and Red category.

The "Nitaqat' program deals with establishments according to the entities affiliated with them; if the establishment is working in two different business sectors, such as healthcare services and retail, for example, the Ministry of Labor will deal with such an establishment as if it were two independent entities, i.e. healthcare services and retail, irrespective of the main business activity or the number of branches. If the establishment operates in only one business sector, and has more than one branch within the same sector, then the Ministry of Labor will deal with such an establishment as if it were composed of one single entity composed of the total number of branches operating in the same business sector. Accordingly, the Ministry of Labor deals with establishments as entities composed of the total branches conducting the same activity.

The following is a brief overview of Nitaqat classifications for establishments operating in the wholesale and retail sectors by category.

Wholesale and Retail business													
Number of workers		Distribution of categories as per the Saudization percentage, as declared by Ministry of Labor											
From	To	Red		Yellow		Low Green		Medium Green		High Green		Platinum
10	49	0%	4%	5%	9%	10%	15%	16%	21%	22%	26%	27%
50	499	0%	4%	5%	16%	17%	22%	23%	28%	29%	23%	34%
500	2999	0%	9%	10%	23%	24%	27%	28%	31%	32%	34%	35%
3000	-	0%	9%	10%	24%	25%	28%	29%	32%	33%	36%	37%

The Platinum category gives the employer several advantages which can be summarized as follows: Entitlement to issue new visas for any required job and additional visas, to change the jobs of its non-Saudi employees into others (except for those excluded under Cabinet resolutions or under sublime orders) and to renew the work licenses of its non-Saudi workers.

The Green category gives the employer several advantages which can be summarized as follows: Entitlement to apply for new visas, change the jobs of its non-Saudi employees into others (except for those excluded under Cabinet resolutions or under sublime orders), grant its workers alternative visas instead of the workers leaving Saudi Arabia with a final departure visa and to renew the work licenses of its non-Saudi workers

When the employer is included within the Yellow category, it results in the following consequences: Inability to apply for new visas, transfer or change the jobs of the non-Saudi employees and renew work licenses of the employer's non-Saudi employees who spent 6 years or more in the Kingdom. In addition, no work licenses for new non-Saudi employees shall be issued while the employer may renew work licenses of its non-Saudi employees provided that the remaining period in the worker's residence is not exceeded (3) months on renewal.

As for the Red category, being included within this category will result in the following consequences: Inability to change or transfer the jobs of the employer's non-Saudi employees, apply for new visas or issue work licenses of the new non-Saudi employees. In addition, no files for new establishment or branch are opened and no work licenses of the employer's non-Saudi employees are renewed.

As at 31 December 2014G, SACO's employees totaled 2,035, of which 694 are Saudi employees. It is worth mentioning that the Company was classified under the "High Green Nitaqat category, due to the fact that it achieved a high level of Saudization amounting to 34.1% of the Company's total workforce. SACO seeks to exceed Saudization requirement levels and intends to continue training and employing Saudi nationals to join its workforce (for more information, please see (4.7) "Employees").

Table 5.11: Breakdown of the Company's employees by job classification

Department	December 2012G			December 2013G			December 2014G		
	Saudi employees	Non-Saudi employees	Total	Saudi employees	Non-Saudi employees	Total	Saudi employees	Non-Saudi employees	Total
Finance Department	2	15	17	2	18	20	2	23	25
IT department	1	12	13	0	13	13	0	17	17
Procurement Department	1	18	19	2	18	20	4	27	31
Marketing Department	0	6	6	0	5	5	1	24	25
Legal Department	0	1	1	0	1	1	0	2	2
Risk Management Department	65	8	73	97	8	105	78	15	93
Prosperities Department	0	1	1	0	1	1	0	1	1
HR Department	8	13	21	9	13	22	11	50	61

Department	December 2012G			December 2013G			December 2014G		
	Saudi employees	Non-Saudi employees	Total	Saudi employees	Non-Saudi employees	Total	Saudi employees	Non-Saudi employees	Total
Supply and Support Department	0	13	13	2	13	15	1	16	17
Product Classification and Presentation Department	0	7	7	1	7	8	1	10	11
Warehouses	5	179	184	4	188	192	3	174	177
Employees under training	79	0	79	204	17	221	341	0	341
Exhibitions and wholesale	465	711	1.176	384	751	1.135	249	808	1.057
Services Department	0	119	119	0	126	126	0	174	174
Senior Management	3	0	3	3	0	3	3	0	3
Total	**629**	**1.103**	**1.732**	**708**	**1.179**	**1.887**	**694**	**1.341**	**2.035**
Saudization	**36.3%**			**37.5%**			**34.1%**		

Source: The Company

6. Management's Discussion and Analysis of the Company's Financial Position

6.1 Introduction

This section presents an analytical review of the Company's operational performance and financial position during the fiscal years ended 31 December 2011G, 2012G, 2013G and 2014G respectively. This section should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto which have been audited by the Company's auditors, PricewaterhouseCoopers, all of which are included in this Prospectus. Prospective investors should read this Prospectus in full, and not rely solely upon the information contained in this section.

PricewaterhouseCoopers does not itself, nor do any of its affiliates have any shareholding or interest of any kind in the Company. As at the date of this Prospectus, PricewaterhouseCoopers have furnished and not withdrawn their written consent to the references in this Prospectus to their role as auditors of the Company for the fiscal years ended 31 December 2011G, 2012G, 2013G, and 2014G respectively.

This section includes forward-looking statements related to the Company, based on the Management's plans and prospects that might involve prospective risks and uncertainties. Thus, actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including those discussed in the following section and elsewhere in this Prospectus, particularly in the "Risk Factors" section.

6.2 Directors' Declaration on Financial Information

The Directors declare that the financial information presented in this Prospectus is extracted without material change from the consolidated audited financial statements and notes thereto for the years of 2011G, 2012G, 2013G and 2014G, in line with the annual financial statements of the Company and prepared on a consolidated basis, and that the audited financial statements have been prepared and audited in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA).

The Directors declare that there has been no material adverse change in the Company's financial or business position during the years 2011G, 2012G, 2013G and 2014G as of the date of this Prospectus.

The Directors also declare that the Company will have sufficient funds to cover its working capital requirements for the twelve (12) months immediately following the date of this Prospectus.

The Company's Board of Directors and its Senior Management accept full responsibility for the authenticity and accuracy of the information and analysis of financial results contained in this Prospectus. The Company's Board of Directors confirms that, after conducting all necessary inquiries, all information relating to the financial position and results of operations have been fully and clearly disclosed and that there is no other information or documentation that make data or information mentioned in this Prospectus misleading.

The Directors declare that no commissions, discounts, brokerage fees or non-cash compensation was given by the Company in the three years immediately preceding the date of submission and acceptance of the listing application in relation to the issuance or offer of any securities. The Directors confirm that the Company's capital is not subject to any option.

6.3 Legal structure and overview of the Company's activities

The Company was established in 1984G as a limited liability company in Riyadh, Saudi Arabia under Commercial Registration No. 1010056595. The Company's activities are centered mainly in the retail sector.

SACO is considered one of the largest companies providing home improvement product solutions in the Kingdom of Saudi Arabia. SACO operates 23 stores in 12 cities throughout the Kingdom, including three "SACO World" superstores. The area of these stores varies from 2,000 to 24,500 square meters space and they provide more than 45,000 different products.

The main product categories offered by SACO include: housewares, electrical appliances, home appliances, garden tools and supplies, outdoor furniture, lighting, hardware, paint supplies, bed and bath accessories, hand and power tools and equipment, building materials, indoor furniture, sporting gear and accessories, automotive supplies and equipment, plumbing supplies, storage and organization and children's toys.

The Company procures its products from a wide range of international and local suppliers including leading international companies in the field of manufacturing equipment, tools and home improvement products. One of those key suppliers is Ace International, with which SACO has concluded an exclusive distribution agreement in the Kingdom of Saudi Arabia.

The Company employs more than 2,000 employees throughout the Kingdom.

6.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Policies have been consistently applied to all the years presented, unless otherwise stated.

No material change has been made to the Company's accounting policies or to the audited financial statements presented during the previous three fiscal years. In addition, no reservations have been given in the accountant's report on the Company's consolidated financial statements for any of the previous three fiscal years. The Company has not also undergone any structural changes or changes to its share capital through external financing during the previous three fiscal years.

Basis of preparation

The accompanying consolidated financial statements have been prepared according to a historical cost basis using the accrual basis of accounting in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the financial reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonably-held expectations of future events. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Foreign Currency translations

(a) Reporting currency

The consolidated financial statements are presented in Saudi riyals, which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi riyals at the exchange rates prevailing on the date of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recorded using year-end exchange rates, which were not material for the years 2014G, 2013G, 2012G, and 2011G, are recognized in the consolidated statement of income.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks and other short-term highly liquid investments with original maturities of three months or less from their purchase date, if any.

Accounts receivable

Accounts receivable are carried at the original invoice amount less the provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provision is charged to the consolidated income statement and reported under general and administrative expenses. When account receivables are uncollectible, they are written-off against the provision for doubtful debts. Any subsequent recovery of amounts previously written-off is credited against general and administrative expenses in the consolidated income statement.

Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using 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.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation, except projects in progress which are carried at cost. Depreciation is charged to the consolidated income statement using the straight-line method, to allocate the costs of the related assets over the following estimated useful lives:

Category	Estimated useful life (year)			
	2011G	2012G	2013G	2014G
Furniture and fixtures	4-20	4-20	4-20	4-20
Computer hardware and software	2-7	2-7	2-7	2-7
Vehicles	4	4	4	4
Tools and equipment	**4-7**	**4-7**	**4-7**	**4-7**

Leasehold improvements are amortized on a straight-line basis over the useful life or contract term, whichever is shorter.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the consolidated income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

Pre-operating expenses

Pre-operating expenses consist of the expenses incurred by the Company for establishing new stores. Such expenses are amortized on the straight-line basis over five to seven years beginning from the operation date of each store.

Supplier patronage shares

Supplier patronage shares constitute a long-term investment in a foreign supplier’s refundable equity shares and are recognized at nominal value. Income from a granted share is recognized when there is a right to receive it.

Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset’s fair value less cost to sell or value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets, other than intangible assets, that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately. Impairment losses recognized on intangible assets, if any, are not reversible.

Borrowings

Borrowings are recognized at the amounts received, after deducting the transaction costs incurred. Borrowing costs directly related to the acquisition, establishment or production of qualifying assets are capitalized as a part of these assets. Costs of other borrowings are recognized in the consolidated income statement.

Accounts payable and accruals

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

Provisions

Provisions are recognized when the Company has a present or prospective legal obligation as a result of a past event; there is a possibility that an outflow of resources will be used to settle the obligation and the amount can be reliably estimated.

Zakat

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax,. A provision for zakat is recognized and charged by the Company to the consolidated income statement. Additional zakat amounts, if any, due at the final assessment are accounted for when such amounts are determined.

Provision for employee termination benefits

Employee termination benefits required by Saudi Labor Law are accrued by the Company and charged to the statement of income. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the date of the consolidated balance sheet. End-of-service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

Earnings per share

Earnings per share are calculated on the basis of the weighted average number of outstanding shares during the year.

Revenues

Retail store sales are recognized on a cash basis and recorded when the customer receives the original receipt. Revenues of wholesale sales and goods on consignment are recognized when goods are delivered to customers. Revenues are recognized after deducting rebates and service income is generated when services are provided.

Costs and expenses

Cost of sales and occupancy

Represents the cost of sales and occupancy incurred during the year and includes the finished goods ready for sale, workforce direct costs and other indirect expenses related to sales and other established revenues.

Selling and marketing expenses

Represent expenses resulting from the efforts of the Company's management relating to marketing or selling and distribution functions. Selling and marketing expenses include direct and indirect costs not specifically a part of sales and occupancy costs. Allocations between selling and marketing expenses and sales and occupancy costs, when required, are made on a consistent basis. Such expenses were not material and have been combined with the general and administrative expenses.

General and administrative expenses

Represent expenses relating to the administration and not to the revenue-generating function or the selling and distribution functions. General and administrative expenses include direct and indirect costs not specifically a part of sales and occupancy costs. Allocations between general and administrative expenses and sales and occupancy costs, when required, are made on a consistent basis.

Dividends

Dividends are recognized in the consolidated financial statements in the period in which they are approved by the Company's shareholders.

Operating leases

Rental expenses under operating leases are charged to the statement of income over the period of the respective lease. Rental income under sub-lease arrangements is recognized on an accrual basis in accordance with the contract terms.

Reclassification of the financial statements

Upon the recommendation of the Company's chartered accountant, some financial statement items were reclassified in 2013G, as set out below.

Items that were reclassified:

The reclassified items include the following:

1. The costs of sales stores and the cost of goods sold have been reclassified from selling and marketing expenses and general and administrative expenses to cost of sales, which now includes:
   - The cost of goods sold
   - Employees' salaries and other benefits
   - Rents and other leasehold expenses
   - Depreciation and amortization
   - Service expenses
   - Rebates received
   - Other direct costs
2. Other accounts receivable have been reclassified from accounts receivable to prepayments and other receivables, and thus the accounts receivable now include only trade accounts receivable.
3. Service revenues including income from delivery, installation and maintenance have been reclassified from other income to sales and income as it represents a part of the main activity of the Company.

According to the chartered accountant, the new classifications above are not considered a change in the Company's accounting policies.

Reasons for reclassification:

The chartered accountant's recommendation on the reclassification is to make the Company's financial statements conform to the applicable and prevailing practices in the retail sector. The chartered accountant believes that the reclassification of the financial statements provides a better presentation of the Company's performance and facilitate comparison with other companies listed in the Saudi retail sector.

The following table shows the expense items that have been reclassified:

Table 6.1: Expense items that have been reclassified

Currency: SAR '000	Prior to reclassification	After reclassification
2012G		
Balance sheet		
Current assets		
Accounts receivable	22,499	9,134
Prepayments and other receivables	18,410	31,775
Income statement		
Sales and other revenues	826,039	831,084
Cost of sales and other operations	(526,426)	(642,327)
Selling, marketing, administrative and general expenses	(230,029)	(104,333)
Other revenues	17,241	2,402

Currency: SAR '000	Prior to reclassification	After reclassification
2011G		
Balance sheet		
Current assets		
Accounts receivable	22,950	11,234
Prepayments and other receivables	18,754	30,470
Income statement		
Sales and other revenues	668,690	672,489
Cost of sales and other operations	(425,759)	(521,937)
Selling, marketing, administrative and general expenses	(193,327)	(90,008)
Other revenues	12,756	1,817

Source: Audited financial statements

6.5 Factors affecting operations

6.5.1 Risks relating to the Kingdom's economy and the global economy

The Company's performance largely depends on the Kingdom's economic condition. Although the Government seeks to apply economic policies aiming at diversifying sources of income, the Saudi economy is still principally dependent on the oil sector, which is reflected in the Kingdom's GDP. Thus, oil price fluctuations (especially when such prices witness a significant decrease) have an adverse and material effect on the Saudi economy and companies operating in the Kingdom in general (including the Company). A change in the Kingdom's economic indicators and factors including economic growth could have an adverse effect on disposable income by decreasing spending on the Company's products, which would adversely and materially affect the Company's operations and results of operations.

6.5.2 The impact of opening new stores

The future growth of the Company's business depends on its ability to find new locations for its stores. In the past, the Company has proven its ability to lease sites suitable for its stores under long-term contracts. The Company intends to expand to cities in the Kingdom in which SACO does not currently have stores, in addition to increasing the number of its stores in major cities.

It should be noted that the opening of new stores may have an adverse effect on the sales of other stores in the same area, if any, particularly as the Company's opening of new stores in the past has decreased the sales of surrounding stores for different periods. Thus, the Company's management must conduct a detailed study of the new sites before making a decision with regard to opening new stores.

6.5.3 Inventory management

The Company must maintain adequate levels of inventory to be able to operate its businesses successfully and avoid running out of inventory. Ordering goods usually takes several weeks, from the issuance of purchase orders by the Company, to manufacturing of the goods and shipping the goods by suppliers to the Company's stores where they are offered for sale. As a result, the Company must promptly respond to the changing environment in the retail tools sector.

The Company always seeks to maintain sufficient inventory of various products in its stores and reduce instances of running out of inventory or accumulation of goods, which requires that the Company manage inventory efficiently. Any adverse or positive change in inventory management directly affects the Company's operations, financial position and cash flows.

6.5.4 Impact of workforce costs and changes to related laws and regulations

The Company's operations largely depend on the availability of a qualified workforce to run its stores and warehouses. In this respect, the Company employs a large number of Saudi and non-Saudi employees. As part of its national duty, the Company exerts ongoing efforts to achieve proper Saudization levels and provide suitable job opportunities for Saudis by supporting Saudization programs, recruiting and training Saudi talent to run the Company's stores efficiently. Due to the number of its staff, the Company's expenses for employees represent an significant portion of the Company's operating expenses. This makes the performance of the Company vulnerable if staff costs are increased, either through increased average salaries as a result of Saudization and training of new employees or changes to the Ministry of Labor's law on foreign workers, such as imposing additional fees or fines in the future.

Other than as set out above, the Company has no information on any governmental, economic, financial, monetary, or political policies, or any other factors that have materially affected or may affect (directly or indirectly) the Company's operations as of the date of this Prospectus.

6.5.5 Seasonal factors and business cycles

The Company does not believe that there are seasonal factors that materially affect the businesses or the financial position of the Company, due to the diversity of the products sold by SACO which are suited to the needs of customers throughout all seasons of the year. For example, internal and external air conditioners and swimming pool supply sales grow in the summer while in the winter there is an increase in sales of outdoor furnishings and interior and exterior heaters. Furthermore, the Company sells products that are in demand throughout all seasons of the year, such as automotive accessories and housewares (for more information, please see Section 3, "Information about the Market and Industry").

As for business cycles, the Company's performance depends on the economic conditions prevailing in the Kingdom of Saudi Arabia, and in particular on the growth of the Saudi consumer's disposable income.

Despite its growth in other sectors, Saudi Arabia's economy and government spending are still dependent on the price of oil and gas on the world markets. Therefore, any change in oil and gas prices would directly affect the Saudi economy and government spending, which in turn would affect the disposable income of the Saudi consumer, which is considered to be the most important driver of the Company's activity, sales, results of operations and financial position.

6.6 Income statement analysis

The following table shows the Company's consolidated income statements for the years 2011G, 2012G, 2013G and 2014G.

Table 6.2: Income statements for the years 2011G, 2012G, 2013G and 2014G

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited	YOY 2011G-2012G	YOY 2012G-2013G	YOY 2013G-2014G	CAGR 2011G-2014G
Total sales	730,517	898,573	1,034,144	1,207,407	23.0%	15.1%	16.8%	18.2%
Sales returns and rebates	(61,827)	(72,534)	(79,117)	(127,678)	17.3%	9.1%	61.4%	27.3%
Net sales	**668,690**	**826,039**	**955,027**	**1,079,729**	**23.5%**	**15.6%**	**13.1%**	**17.3%**
Other revenues	3,799	5,045	6,251	5,118	32.8%	23.9%	(18.1%)	10.4%
Total Revenues	**672,489**	**831,084**	**961,278**	**1,084,847**	**23.6%**	**15.7%**	**12.9%**	**17.3%**
Cost of sales	(521,937)	(642,327)	(742,534)	(833,353)	23.1%	15.6%	12.2%	16.9%
Gross profit	**150,552**	**188,757**	**218,744**	**251,494**	**25.4%**	**15.9%**	**15.0%**	**18.7%**
Selling and marketing expenses and general and administrative expenses	(90,008)	(104,333)	(112,251)	(131,372)	15.9%	7.6%	17.0%	13.4%
Income from operations	**60,544**	**84,424**	**106,493**	**120,122**	**39.4%**	**26.1%**	**12.8%**	**25.7%**
Financing expenditures	(2,917)	(4,519)	(2,427)	(6,195)	54.9%	(46.3%)	155.3%	28.5%
Other revenues	1,816	2,402	2,859	3,678	32.2%	19.0%	28.6%	26.5%

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited	YOY 2011G-2012G	YOY 2012G-2013G	YOY 2013G-2014G	CAGR 2011G-2014G
Income before zakat	**59,443**	**82,307**	**106,925**	**117,605**	**38.5%**	**29.9%**	**10.0%**	**25.5%**
Zakat adjustments	(477)	-	-	-	(100.0%)	-	-	(100.0%)
Zakat	(3,773)	(5,492)	(4,182)	(7,591)	45.6%	(23.9%)	81.5%	26.2%
Net income	**55,193**	**76,815**	**102,743**	**110,014**	**39.2%**	**33.8%**	**7.1%**	**25.9%**
Management fees	10,807	15,061	19,662	0	39.4%	30.5%	(100.0%)	(100.0%)
Net income before management fees	**66,000**	**91,876**	**122,405**	**110,014**	**39.2%**	**33.2%**	**(10.1%)**	**18.6%**

Source: Audited financial statements and the Company Management

The total sale items represents the quantities of goods sold in the retail and wholesale sectors, which are priced by Company management based on a moving average cost price of the product plus a profit margin.

Sales returns are goods returned to stores for the purpose of exchanging or returning them. They fall within the scope of the policies set by the Company's management in that regard. Rebates are sale price discounts offered to store customers during sale periods. Sales return and rebates witnessed a CAGR of 27.3% in the period extending from 2011G to 2014G, compared a total sales CAGR of 18.2% during the same period, as a result of the Company increasing its marketing campaigns to maintain sales growth in 2014G and compensate for the closure of the fire-damaged Takhassusi store (please refer to section 11.6 "Insurance").

6.6.1 Revenues

The following is a breakdown of the Company's revenues by store type and business sector for the years 2011G, 2012G, 2013G and 2014G:

Table 6.3: Breakdown of Company revenues by store type and business sector (2011G-2014G)

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited	YOY 2011G-2012G	YOY 2012G-2013G	YOY 2013G-2014G	CAGR 2011G-2014G
SACO branches	398,701	447,578	510,082	568,928	12.3%	14.0%	11.5%	12.6%
SACO World branches	225,007	328,444	392,583	450,218	46.0%	19.5%	14.7%	26.0%
Branches operating under a franchise license	26,472	33,139	38,318	45,960	25.2%	15.6%	19.9%	20.2%
Total retail sales	**650,180**	**809,161**	**940,983**	**1,065,106**	**24.5%**	**16.3%**	**13.2%**	**17.9%**
Wholesale sales – Central Region	12,286	13,217	12,246	13,220	7.6%	(7.3%)	8.0%	2.5%
Wholesale sales – Eastern Region	2,535	3,381	1,798	1,403	33.4%	(46.8%)	(22.0%)	(17.9%)
Wholesale sales – Western Region	3,689	280	-	-	(92.4%)	(100.0%)	-	(100.0%)
Total wholesale sales	**18,510**	**16,878**	**14,044**	**14,623**	**(8.8%)**	**(16.8%)**	**4.1%**	**(7.6%)**
Total sales	668,690	826,039	955,027	1,079,729	23.5%	15.6%	13.1%	17.3%
Other revenues	3,799	5,045	6,251	5,118	32.8%	23.9%	(18.1%)	10.4%
Total Revenues	**672,489**	**831,084**	**961,278**	**1,084,847**	**23.6%**	**15.7%**	**12.9%**	**17.3%**

Source: The Company Management

The Company mainly generates its revenue through retail sales along with wholesale sales. The Company engages in retail activities through three types of branches:

SACO regular stores: The surface area of SACO regular stores ranges from 2,009 square meters to 5,915 square meters as at 31 December 2014G.

SACO World stores: The surface area of SACO World stores ranges from 11,297 square meters to 24,681 square meters as at 31 December 2014G.

Stores operating under a franchise license: These are stores independently operated by other parties, to which the Company has given franchise licenses to run specific branches.

As of 31 December 2014G, the Company operates through 17 regular stores across various regions of the Kingdom of Saudi Arabia. On average, total revenues of such stores accounted for 55.6% of total retail revenues between 2011G and 2014G.

In addition, the Company runs three SACO World stores across the major cities in Saudi Arabia. On average, sales of the SACO World stores accounted for 40.2% of the Company's total revenues from retail sales between 2011G and 2014G.

The Company has also granted franchise licenses to two local companies to run two stores in Tabuk and Khamis Mushait. On average, revenues of these two stores operating under franchise licenses accounted for 4.2% of total retail revenues generated between 2011G and 2014G.

The Company adopts the following accounting policy in its financial statements for the branches operating under franchise licenses:

- Sales: Revenues generated from sales of stores operating under franchise licenses are recorded in the Company's records in the same way and with the same rating applicable in the registration of revenues of other stores. Sales of stores operating under a franchise license are considered as cash sales in full and therefore any debts resulting from deferred sales made in these stores are not recorded in the Company's records. Such stores shall pay to the Company the entire proceeds of the sale upon weekly claims issued by the Company after deducting the sales commissions agreed upon. Such weekly claims are recorded within the Company's trade accounts receivable.
- Cost of sales: The Company does not bear the costs of running stores operating under franchise licenses, thus only the cost of goods sold is recorded in the Company's records, without incurring other expenses that are recorded under the cost of sales for the regular stores (such as salaries of store employees, store rent and depreciation expenses, etc.).
- Selling and marketing expenses and general and administrative expenses: The Company does not bear selling and marketing expenses and general and administrative expenses for the stores operating under franchise licenses except for promotional and advertising expenses, goods transportation and a portion of the communications expenses. Such expenses are classified according to the classification applicable for the Company's other stores.
- Trade accounts receivable: The weekly claims (sales net franchise commissions) are recorded within the Company's trade accounts receivable.
- Inventory: Goods' inventories at the stores operating under franchise licenses are owned by SACO and are carried at cost in the Company's records in the same manner used for the regular stores' inventories. The Company monitors the inventories by computer to determine the quantities to be provided to the stores against the quantities sold. Such stores are fully responsible for any deficiency in the inventories, which are to be charged at the selling price determined by the Company's management and listed in the computer system.
- Fixed assets: Any fixed assets of the stores operating under franchise licenses are not registered in the Company's records, since all assets, except for inventory, are considered the property of the franchise license holders.

The Company witnessed a growth in revenues between 2011G and 2014G, as the Company has taken several strategic and practical steps to motivate and increase the number of customers and thereby increase sales. These steps included the replacement of a number of old stores, whose total area was relatively limited, with SACO World stores, whose area is larger than that of regular stores. These steps also included the Company opening new stores such as Al Sawari store in Jeddah, which was opened in 2014G as well as increasing the area of the SACO World Jeddah store and Takhassusi store in Riyadh that same year, in addition to advertising and promotional campaigns including online advertising campaigns.

In general, the Company's retail sales increased at a compound annual growth rate of 17.9% between 2011G and 2014G.

6.6.2 Impact of the new stores

The following table shows the impact of "ongoing stores", which are the stores opened prior to 2011G and that continue to operate as at 31 December 2014G, in addition to the new stores opened during the years 2011G, 2012G and 2014G:

Table 6.4: Breakdown of net sales by year of store opening/closing (2011G-2014G)

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited	YOY 2011G-2012G	YOY 2012G-2013G	YOY 2013G-2014G
Stores opened prior to 2011G	559,647	641,860	747,604	827,747	14.7%	16.5%	10.7%
Stores opened during 2011G	74,670	161,334	176,435	195,591	116.1%	9.4%	10.9%
Stores closed during 2011G	15,863	-	-	-	(100.0%)	-	-
Stores opened during 2012G	-	5,967	16,943	20,491	100%	183.9%	20.9%
Stores opened during 2014G	-	-	-	21,277	-	-	100%
Wholesale sales	18,510	16,878	14,045	14,623	(9.1%)	(16.5%)	4.1%
Total sales	**668,690**	**826,039**	**955,027**	**1,079,729**	**23.5%**	**15.6%**	**13.1%**

Source: The Company Management

The following table shows the number and surface area of branches as at 31 December 2011G, 2012G, 2013G and 2014G.

Table 6.5: Number and area of branches (2011G-2014G)

Currency: SAR '000	2011G	2012G	2013G	2014G
Number of SACO and SACO World branches as at the end of the year	20	21	21	22
Total area of branches	102,009	106,603	106,603	121,889
Total area of branches by actual working days*	90,012	104,551	105,536	110,887

Source: The Company Management

*Please note that the total area by actual working days has been calculated on the basis of the total area of the store divided by the number of days in the period multiplied by the number of operating days for each store since its inauguration. This aims to calculate and analyze sales by square meter in a manner balancing the periods while avoiding the impact of the stores put into operation during the period (if the areas of these new stores are calculated without change, this would indicate an unreal decline in sales rate per square meter).

During the first half of 2011G, the Company operated 16 SACO stores and two SACO World stores with two stores operating under franchise licenses for a total retail space of 77,012 square meters. In June 2011G, the Company suspended its activities at the Al Ahsa and Dhahran stores, which had a total area of 1,492 square meters and 2,200 square meters respectively. The Company transferred the two stores' activities to new locations with larger areas that were leased and equipped for this purpose, i.e., Al Ahsa store, with an area of 4,008 square meters and SACO World Dhahran store, which covers an area of 24,681 square meters. Thus, the total retail space of the Company's branches increased to 102,009 square meters as at 31 December 2011G.

On 30 June 2012G, the Company opened Al Qasr store in the Central Region with a total area of 4,594 square meters, which resulted in an increase in the total area of the Company's branches to 106,603 square meters as at December 2012G. No new stores were opened during 2013G.

During May 2014G, the Company opened Al Sawari SACO store in the Western Region with a total area of 5,258 square meters. The Company also expanded the retail space of Takhassusi store from 3,510 square meters to 5,853 square meters, and of SACO World store in the Western Region from 10,528 square meters to 18,213 square meters. At the end of 2014G, the total retail space of the Company rose to 121,889 square meters.

Revenue generated from the stores opened prior to 2011G reached an average of 78.7% of the total revenues from 2011G to 2014G, at a CAGR of 13.9% between 2011G and 2014G. On the other hand, total revenues generated from the branches opened in 2011G and 2012G reached an average of 18.5% of the total revenues from 2011G to 2014G.

6.6.3 Analysis of revenue per square meter

The average retail revenue of SACO stores per square meter amounted to SAR 7,223, SAR 7,739, SAR 8,916 and SAR 9,605 in 2011G, 2012G, 2013G and 2014G respectively. The increase in total revenues per square meter is driven by the following factors:

- Increased marketing activities and promotional campaigns between 2011G and 2013G, which led to an increased demand for store products.
- Closure of the SACO store in Dhahran with an area of 2,200 square meters and its replacement with the SACO World store in the same city, which opened in June 2011G with an area of 24,681 square meters. This increased the annual revenues generated by the Dhahran store to SAR 96.3 million, SAR 111.0 million, SAR 123.6 million and SAR 136.7 million in 2011G, 2012G, 2013G and 2014G respectively.
- Closure of the 1,492 square meters SACO store in Al Ahsa and its replacement with a larger 4,008 square meters store in the same city in June 2011G. This resulted in a general increase in annual revenues. Total revenues of Al Ahsa's two (old and new) stores amounted to SAR 24.1 million in 2011G, with the new store revenues amounting to SAR 34.5 million, SAR 36.9 million and SAR 43.0 million in 2012G, 2013G and 2014G respectively.
- Opening of the 4,594 square meters Al Qasr store in Riyadh in June 2012G, which led to an increase in the Company's total sales by SAR 6.0 million, SAR 16.9 million and SAR 20.5 million in 2012G, 2013G and 2014G.
- Re-opening of the Takhassusi store in June 2014G in Riyadh and expanding its retail space from 3,510 square meters to 5,853 square meters.
- Expansion of the SACO World Jeddah store from 10,528 square meters to 18,213 square meters in November 2014G.

6.6.4 Sales by division

The Company's products are divided into six divisions for the purposes of reporting and internal control. The following table presents the six divisions and their respective product categories:

Table 6.6: The Company's divisions and respective product categories

Division	Category
Housewares	Housewares, Lighting, Bed and Bath Accessories
Do-it-yourself	Hand and Power Tools and Equipment, Paint Supplies, Plumbing Supplies
Equipment, Tools and Building Materials	Hardware, Building Materials, Automotive Supplies and Equipment, Storage and Organization Needs
Outdoor Supplies	Garden Tools and Supplies, Outdoor Furniture, Indoor Furniture
Power Tools	Electrical Appliances, Sporting Gear and Accessories
Other Products	Includes sales of the Company's non-core products (such as partially damaged toys that are salable, some technology products, and customized products not on display in SACO stores, electrical and miscellaneous supplies, etc.)

Source: The Company Management

The following is a breakdown of sales by product category:

Table 6.7: Breakdown of sales by division (2011G-2014G)

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited	YOY 2011G-2012G	YOY 2012G-2013G	YOY 2013G-2014G	CAGR 2011G-2014G
Housewares	131,212	156,911	189,257	234,184	19.6%	20.6%	23.7%	21.3%
Do-it-yourself	105,099	125,330	137,735	99,963	19.2%	9.9%	(27.4%)	(1.7%)
Equipment, Tools and Building Materials	110,507	131,910	145,510	135,077	19.4%	10.3%	(7.2%)	6.9%
Outdoor Supplies	97,539	139,132	169,710	274,352	42.6%	22.0%	61.7%	41.2%
Power Tools	145,932	185,417	225,664	257,475	27.1%	21.7%	14.1%	20.8%
Other Products	78,401	87,339	87,151	78,678	11.4%	(0.2%)	(9.7%)	0.1%
Total sales	**668,690**	**826,039**	**955,027**	**1,079,729**	**23.5%**	**15.6%**	**13.1%**	**17.3%**

Source: The Company Management

During the period between 2011G and 2014G, the Power Tools division ranked the highest among the other divisions in terms of its contribution to sales as a result of increased demand for various electrical appliances, with an average of 23.1% of the total sales during the same period.

The Outdoor Supplies (Gardens) division contributed 19.3% of total sales in 2011G, 2012G, 2013G and 2014G. Sales of the Outdoor Supplies division accounted for a higher contribution to sales in 2014G, with 25.4% of sales for that year. The Outdoor Supplies division witnessed the fastest growth with a CAGR of 41.2% between 2011G and 2014G, as a result of the type of goods sold through that department, which are constantly upgraded in line with customer demand. The 61.7% rate of growth of 61.7% in 2013G and 2014G came primarily as a result of the reclassification of landscape gardening tools from the Do-it-yourself division to the Outdoor Supplies division (for example, blowers and pressure washers), as well as the reclassification of some products from the Equipment and Tools division to the Outdoor Supplies division.

Revenues from the Housewares division witnessed a compound annual growth rate of 21.3% between 2011G and 2014G as a result of the growing demand for products in this category in addition to the reclassification of the bath accessories category from the Do-it-yourself division to the Housewares division in 2013G.

Revenues from the Do-it-yourself division witnessed a compound annual growth rate of 14.5% between 2011G and 2013G as a result of the growing demand for the products in this category. The reclassification of Bathroom Accessories from the Do-it-yourself division to the Housewares division in 2013G decreased the revenues generated by the Do-it-yourself division by 27.4% during 2014G compared to 2013G.

Revenues from the Equipment, Tools and Building Materials division rose between 2011G and 2013G as a result of the normal growth of the Company's business. Revenues in this category decreased 7.2% between 2013G and 2014G as a result of the reclassification of some items to be in the Outdoor Supplies division.

The above-mentioned items were reclassified when the Company changed its ERP system. The transfer to the new system in 2013G gave the Company a chance to reclassify certain items under the divisions best suited to them.

The Other Products division recorded the lowest average growth compared to the other divisions, with a compound annual growth rate of 0.1% between 2011G and 2014G. In general, the sales of this division are not affected by the Company's promotional activities as they are not key products of the Company. The contribution of this division to total sales is the lowest compared to other divisions, with an average of 9.4% between 2011G and 2014G.

6.6.5 Cost of sales

Table 6.8: Breakdown of cost of sales (2011G-2014G)

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited	YOY 2011G-2012G	YOY 2012G-2013G	YOY 2013G-2014G	CAGR
Cost of goods sold	425,759	526,426	606,731	690,896	23.6%	15.3%	13.9%	17.5%
Salaries and other benefits	48,058	61,201	75,096	77,190	27.3%	22.7%	2.8%	17.1%
Rents and other leasehold expenses	35,693	41,588	46,341	52,064	16.5%	11.4%	12.3%	13.4%
Depreciation and amortization	11,202	12,797	14,046	15,573	14.2%	9.8%	10.9%	11.6%
Service expenses	4,796	5,086	6,115	6,800	6.0%	20.2%	11.2%	12.3%
Rebates received	(7,141)	(9,794)	(15,630)	(22,453)	37.2%	59.6%	43.7%	46.5%
Other	3,570	5,024	9,835	13,283	41.3%	95.8%	35.1%	55.0%
Total cost of sales	**521,937**	**642,327**	**742,534**	**833,353**	**23.1%**	**15.6%**	**12.2%**	**16.9%**

Source: Audited financial statements and the Company Management

Table 6.9: Cost of sales to net sales and other revenues

	2011G Audited	2012G Audited	2013G Audited	2014G Audited
Cost of goods sold	63.3%	63.3%	63.1%	63.7%
Salaries and other benefits	7.1%	7.4%	7.8%	7.1%
Rents and other leasing expenses	5.3%	5.0%	4.8%	4.8%
Depreciation and amortization	1.7%	1.5%	1.5%	1.4%
Service expenses	0.7%	0.6%	0.6%	0.6%
Rebates received	(1.1%)	(1.2%)	(1.6%)	(2.1%)
Other	0.5%	0.6%	1.0%	1.2%
Total	**77.6%**	**77.3%**	**77.2%**	**76.8%**

Source: Audited financial statements and the Company Management

The cost of goods sold accounted for the major share of the cost of goods, increasing at a CAGR of 17.5%, in line with the growth in total revenues. On average, the cost of goods sold accounted for 63.4% of the total revenues between 2011G and 2014G. Table 6.8 shows the cost of sales breakdown.

The cost of goods sold consists of the cost of the product at the purchase price from the supplier, plus shipping costs, customs clearance, transportation costs and insurance.

Purchases from Ace International accounted for an average of 33.6% of the total purchases from suppliers between 2011G and 2014G, and the total purchases from Al Juffali and Brothers Company for Technical Equipment amounted to an average of 5.6% during the same period.

Salaries and other benefits increased at a CAGR of 17.1%. This was mainly driven by the increase in the number of employees from 1,549 employees as at December 2011G to 2,035 employees as at December 2014G, as well as a 5% increase in basic salaries and an increase in employee commissions as a result of revenue growth. Salaries and other benefits recorded similar growth rates of 27.3% in 2012G and 22.7% in 2013G due to the increase in the number of employees by 183 employees and 155 employees in the years 2012G and 2013G respectively. As for 2014G, salaries and other benefits witnessed a modest rise compared to 2013G, increasing by 2.8% despite the increase in the number of employees by 148 employees, due to the following reasons:

- The policy on sales commissions granted by the Company to its employees was changed, resulting in lower annual sales commission expenses, from SAR 8.7 million as at December 2013G to SAR 7.0 million as at December 2014G.
- The Company's management approved an increase to the base salaries during November 2014G, and the impact of this increase only appears for the last two months of 2014G.
- The annual airline ticket allowance decreased from SAR 4.0 million as at December 2013G to SAR 2.4 million as at December 2014G as a result of the use of the "Amadeus" system, which allows for the selection of the most suitable and cheapest prices.

Rents and other leasing expenses covered within cost of sales consist of the annual rent paid to the owners of leased properties used by the Company such as SACO and SACO World stores and maintenance centers and insurance premiums against fire, theft and civil liability, as well as maintenance costs and expenditures for public utilities. These expenditures grew at a CAGR of 13.4% between 2011G and 2014G as a result of the reopening of Al Ahsa and Dhahran stores after they were moved to two new locations with a larger area in 2011G, the opening of the Al Qasr store in Riyadh in 2012G and the opening of Al Sawari SACO store in Jeddah in May 2014G, which led to an increase in the related rent and service expenses.

Service expenses consist of the costs of equipment maintenance and office furniture, the costs vehicles leased by the branches and telephone and mail bills. These costs rose at a CAGR of 12.3%, in line with the increase in operations between 2011G and 2014G.

The Company's suppliers grant rebates if the Company achieves specific purchasing targets agreed upon with the suppliers. The rebates received from suppliers are registered as a reduction of cost of sales. Rebates received increased at a CAGR of 46.5% between 2011G and 2014G due to increased business and the high value of purchases. The growth in rebates is not totally related to sales due to the difference in target purchasing percentages and rebate rates, as well as the addition of new suppliers.

On average, other sales costs accounted for 1.2% of the cost of sales between 2011G and 2014G. Other sales costs include expenditure for transportation between stores and warehouses, packaging expenses and damaged and lost materials. This item increased at CAGR of 55.0% between 2011G and 2014G due to the increase in operations. It should be noted that other sales costs rose noticeably in 2013G as a result of the reclassification of certain costs from administrative and general expenses to cost of sales, which can be seen in 2013G and 2014G.

6.6.6 Gross profit

The following table shows the gross profit for the years ended 31 December 2011G, 2012G, 2013G and 2014G:

Table 6.10: Gross profit (2011G-2014G)

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited	YOY 2011G-2012G	YOY 2012G-2013G	YOY 2013G-2014G	CAGR
Total sales	730,517	898,573	1,034,144	1,207,407	23.0%	15.1%	16.8%	18.2%
Sales returns and rebates	(61,827)	(72,534)	(79,117)	(127,678)	17.3%	9.1%	61.4%	27.3%
Net sales	**668,690**	**826,039**	**955,027**	**1,079,729**	**23.5%**	**15.6%**	**13.1%**	**17.3%**
Other revenues	3,799	5,045	6,251	5,118	32.8%	23.9%	(18.1%)	10.4%
Total revenues	672,489	831,084	961,278	1,084,847	23.6%	15.7%	12.9%	17.3%
Cost of sales	(521,937)	(642,327)	(742,534)	(833,353)	23.1%	15.6%	12.2%	16.9%
Gross profit	**150,552**	**188,757**	**218,744**	**251,494**	**25.4%**	**15.9%**	**15.0%**	**18.7%**
Gross profit margin	22.40%	22.70%	22.80%	23.18%				

Source: Audited financial statements and the Company Management

The average gross profit margin amounted to 22.8% between 2011G and 2014G. Gross profit increased at a CAGR of 18.7% between 2011G and 2014G. This increase is driven by following factors:

- Increased marketing activities, resulting in higher sales and revenues
- Rise in the number of families in Saudi Arabia and increase in disposable income
- Introduction of new products to further diversify the range of products offered in the SACO World stores, which have a larger display area than other SACO stores.
- Opening of new stores, especially the SACO World store in the Eastern Region in 2011G. SACO World stores provide a wider range of products within each category than the regular stores, which contributed to the increased revenues and thus higher gross profit.

6.6.7 Selling and marketing expenses and general and administrative expenses

The following table shows the Company's selling and marketing expenses and general and administrative expenses as at 31 December 2011G, 2012G, 2013G and 2014G:

Table 6.11: Selling and marketing expenses and general and administrative expenses (2011G–2014G)

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited	YOY 2011G-2012G	YOY 2012G-2013G	YOY 2013G-2014G	CAGR
Salaries and other benefits	30,370	30,947	42,510	53,575	1.9%	37.4%	26.0%	20.8%
Management fees	10,807	15,061	19,662	-	39.4%	30.5%	(100.0%)	(100.0%)
Rents and other leasing expenses	5,946	6,126	7,283	8,676	3.0%	18.9%	19.1%	13.4%
Promotion and advertising	15,575	16,929	14,665	19,091	8.7%	(13.4%)	30.2%	7.0%
Depreciation and amortization	2,878	3,940	4,715	8,810	36.9%	19.7%	86.8%	45.2%
Franchise sales commissions	6,380	8,030	8,913	10,480	25.9%	11.0%	17.6%	18.0%
Service expenses	4,856	6,294	6,834	10,391	29.6%	8.6%	52.0%	28.9%
Provision for slow-moving items and inventory shortages	4,635	2,200	4,250	4,833	(52.5%)	93.2%	13.7%	1.4%
Inventory write-off, net	4,855	8,206	(2,330)	9,434	69.0%	(128.4%)	not applicable	24.8%
Pre-operating expenses write-off	7	-	452	-	(100.0%)	-	(100.0%)	(100.0%)
Provision for doubtful debts	278	1,100	245	219	295.7%	(77.7%)	(10.6%)	(7.6%)

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited	YOY 2011G-2012G	YOY 2012G-2013G	YOY 2013G-2014G	CAGR
Other	3,421	5,500	5,052	5,863	60.8%	(8.2%)	16.1%	19.7%
Total	**90,008**	**104,333**	**112,251**	**131,372**	**15.9%**	**7.6%**	**17.0%**	**13.4%**

Source: Audited financial statements and the Company Management

Table 6.12: Selling and marketing expenses and general and administrative expenses as a percentage of total revenue (2011G–2014G)

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited
Salaries and other benefits	4.5%	3.7%	4.4%	4.9%
Management fees	1.6%	1.8%	2.0%	- %
Rents and other leasehold expenses	0.9%	0.7%	0.8%	0.8%
Promotion and advertising	2.3%	2.0%	1.5%	1.8%
Depreciation and amortization	0.4%	0.5%	0.5%	0.8%
Franchise sales commissions	0.9%	1.0%	0.9%	1.0%
Service expenses	0.7%	0.8%	0.7%	1.0%
Provision for slow moving items and inventory shortages	0.7%	0.3%	0.4%	0.4%
Inventory write-off, net	0.7%	1.0%	(0.2%)	0.9%
Pre-operating expenses write-off	0.0%	- %	0.0%	- %
Provision for doubtful debts	0.0%	0.1%	0.0%	0.0%
Other	0.5%	0.7%	0.5%	0.5%
Total	**13.4%**	**12.6%**	**11.7%**	**12.1%**

Source: Audited financial statements and the Company Management

On average, salaries and other benefits accounted for 35.9% of total selling and marketing expenses and general and administrative expenses between 2011G and 2014G. Total salaries recorded a CAGR of 20.8% between 2011G and 2014G as a result of the growth in the numbers of Saudi employees and the bonuses granted to all employees from 2011G to 2014G amounting to approximately 5.0% of the base salaries. In addition to the impact of the change in the Labor Law which obliges the employer to pay an additional SAR 2,400 for each non-Saudi employee upon the renewal of the employee's work visa (such fees are applied when renewing work visas for non-Saudi employees, who number more than twice the Saudi employees at the Company).

The Company has an ambitious policy in place to employ Saudis in its stores, and has established a training program for new employees for a specified period before they are transferred to the stores. The cost of salaries and training during this period is recorded under general and administrative expenses, and is then transferred and included under the cost of sales after those employees have been transferred to the stores. The increased number of Saudi employees has resulted in an increase in total salaries and social insurance expenses due to the high wages of Saudi employees compared to non-Saudis.

The following table shows the average annual employee salary between 2011G and 2014G:

Table 6.13: Average annual employee salary (2011G–2014G)

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited	YOY 2011G-2012G	YOY 2012G-2013G	YOY 2013G-2014G	CAGR 2011G-2014G
Salaries and other benefits under cost of sales	48,058	61,201	75,096	77,190	27.3%	22.7%	2.8%	17.1%
Salaries and other benefits under selling and distribution and administrative and general expenses	30,370	30,947	42,510	53,575	1.9%	37.4%	26.0%	20.8%
Total salaries and other benefits	**78,428**	**92,148**	**117,606**	**130,765**	**17.5%**	**27.6%**	**11.2%**	**18.6%**

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited	YOY 2011G-2012G	YOY 2012G-2013G	YOY 2013G-2014G	CAGR 2011G-2014G
Number of employees	1,549	1,732	1,887	2,035	11.8%	8.9%	7.8%	9.5%
Average annual employee salary (SAR)	**50,632**	**53,203**	**62,324**	**64,258**	**5.1%**	**17.1%**	**3.1%**	**8.3%**

Source: Audited financial statements and the Company Management

Management fees represent 15.0% of the Company's annual income and are paid annually to Al Hamidi Contracting Establishment Company, one of the Company's shareholders in return for managing the Company's operations. On 22 January 2014G, the management fee agreement was terminated and as a result Al Hamidi Contracting Establishment Company permanently waived its right to administrative fees as of 1 January 2014G. As a part of the agreement termination arrangements, 9% of the Company's shares were transferred to Al Hamidi Contracting Establishment Company, with 4.5% of the Company shares held by Abdul Rahman Hassan Abbas Sharbatly and 4.5% of the shares held by Abrar International Holding Company were transferred to Al Hamidi Contracting Establishment Company.

Rents and other household expenses included under selling and marketing expenses and general and administrative expenses related to the warehouses and real estate used by the management recorded a CAGR of 13.4% from 2011G to 2014G. This was due to the renewal of a warehouse lease in Riyadh in March 2011G, the relocation of the Company's head office in 2013G after a fire that damaged the Company's head office and the Takhassusi store (please refer to Section 11.6 "Insurance") and the lease of a new warehouse in Riyadh.

Promotion and advertising expenditures consist of the cost of advertising in newspapers, magazines, publications, television, radio and digital advertising media. Promotion and advertising costs grew at a CAGR of 7.0% between 2011G and 2014G as a result of the Company's business growth. The cost of publications accounted for an average of 60.1% of the total promotion and advertising expenditures between 2011G and 2014G, followed by the cost of advertising in newspapers and magazines at 24.0%.

Depreciation and amortization expenses recorded a CAGR of 45.2% from 2011G to 2014G driven by additions to the category of "leasehold improvements" (which has witnessed steady growth as a result of the opening of new stores and the expansion of some old stores such as SACO World Dhahran store) and the introduction of the "ERP System" in late 2013G.

Franchise sales commissions represent the amounts incurred by the Company with regard to the parties granted franchise rights by the Company for the SACO Tabuk store and the SACO Khamis Mushait store. Such amounts are calculated as a percentage of sales. Sales franchise commissions recorded a CAGR of 18.0% from 2011G to 2014G due to the franchise stores' increased sales.

Services expenditures generally consist of public services such as water, electricity, internet and courier. These expenses rose at a CAGR of 28.9%, in line with the growth in the Company's business.

The provision for slow moving items and inventory shortages is an expense the Company calculates on a monthly basis to recognize inventory shortages and slow-moving inventory. This provision is a minimum of 1.5% of net sales in addition to the additional provisions resulting from periodic inventories (if the 1.5% is not sufficient). Beginning in 2014G, the Company changed this percentage to a minimum of 1.25% to conform to the results of the inventories over the past years (for more details, please see the inventory analysis).

Inventory that has been written off (or back) is the difference between the actual inventory and the inventory value registered in the Company's books at the end of the fiscal year. The inventory amendment made in 2013G refers to the actual inventory changes employed by the Company during the implementation of the Company's ERP system. It has been established that the actual inventory exceeds the value recorded in the old system by SAR 2.3 million.

6.6.8 Income from operations

Income from operations recorded a CAGR of 25.7% from 2011G until 2014G as a result of a growth in sales and gross profit at a rate faster than the growth in selling, marketing expenses and general and administrative expenses. This is primarily due to the increase in the Company's sales, and in addition the termination of the management fee agreement as mentioned above.

Table 6.14: Income from operations (2011G–2014G)

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited
Income from operations	60,544	84,424	106,493	120,122
Income from operations margin (%)	9.0%	10.2%	11.1%	11.1%
Income from operations – before management fees	**71,351**	**99,485**	**126,156**	**120,122**
Income from operations margin – before management fees (%)	10.6%	12.0%	13.1%	11.1%

Source: Audited financial statements and the Company Management

The Income from operationsmargin before management fees decreased from 13.1% in 2013G to 11.1% in 2014G. This is mainly due to the increase in the value of the written-off inventory by SAR 11.8 million between 2013G and 2014G, and the depreciation costs of the new ERP system, which amounted to SAR 5.3 million in 2014G.

6.6.9 Financing expenditures

Financing expenditures relate to short and medium-term borrowings and letters of credit obtained by the Company from Saudi Investment Bank, Banque Saudi Fransi and Saudi British Bank. The following table shows the breakdown of financing expenditures:

Table 6.15: Financing expenditures (2011G–2014G)

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited	YOY 2011G-2012G	YOY 2012G-2013G	YOY 2013G-2014G
Bank borrowings	2,514	4,205	2,002	5,137	67.3%	(52.4%)	156.6%
Bank fees	362	311	407	691	(14.1%)	30.9%	69.8%
Overdrafts	42	3	18	367	(92.9%)	500.0%	1.938.9%
Total	**2,917**	**4,519**	**2,427**	**6,195**	**54.9%**	**(46.3%)**	**155.3%**

Source: The Company Management

6.6.10 Zakat Expense

The Company is subject to the regulations of the Department of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia. The increase in the zakat expense between 2011G and 2014G reflects the increase in net income. The Company was granted a zakat certificate from DZIT on 06/06/1435H for the period ended on 31/12/2013G. This enables the Company to finish all of its transactions, and under this certificate the Company is able to issue its final dues for the contracts. This certificate remains valid until 30/04/2015G. The final zakat assessment obtained by the Company was for the financial period ending on 12/31/2007G; the Company has not obtained any final zakat assessments since that time for the financial years ending 31 December 2008G to 31 December 2014G.

6.6.11 Net income

The increase in net income resulted primarily from the increase in revenues between 2011G and 2014G, with the gross profit margin remaining stable during the same period. Between 2011G and 2014G, the Company's net income rose at a CAGR of 25.9% compared to a gross profit CAGR of 18.7%, due to the Company's continued growth and development of the retail sector's operational efficiency. For example, the Company increased its reliance on social networking site marketing channels, which are less expensive compared to other marketing methods. In addition, rental expenses grew at lower rates than the rates of sales increase as leases are signed for specific amounts over long periods. The termination of the management fee agreement with Al Hamidi Contracting Establishment Company (as of 1 January 2014G) was the main driver behind the increase in net income from SAR 102.7 million in 2013G to SAR 110.0 million in 2014G.

Table 6.16: Net income (2011G–2014G)

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited	YOY 2011G-2012G	YOY 2012G-2013G	YOY 2013G-2014G
Net income	55,193	76,815	102,743	110,014	39.2%	33.8%	7.1%
Net income margin	8.2%	9.2%	10.7%	10.1%			
Addition of management fees	10,807	15,061	19,662	-	39.4%	30.5%	(100.0%)
Net income before management fees	**66,000**	**91,876**	**122,405**	**110,014**	**39.2%**	**33.2%**	**(10.1%)**
Net income margin before management fees	9.8%	11.1%	12.7%	10.1%			

Source: Audited financial statements and the Company Management

The net income margin was 8.2% in 2011G, 9.2% and 10.7% in 2012G and 2013G, respectively. The net income margin fell to 10.1% in 2014G due primarily to the increase in salaries and other benefits charged under selling and marketing expenses and general and administrative expenses, the higher provision for inventory shortages, and the increased depreciation and amortization (especially new depreciation relating to the ERP system, which amounted to SAR 5.3 million during 2014G).

6.6.12 Key Performance Indicators

Table 6.17: Key Performance Indicators for 2011G, 2012G, 2013G and 2014G

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited	YOY 2011G-2012G	YOY 2012G-2013G	YOY 2013G-2014G	CAGR
Gross profit	150,552	188,757	218,744	251,494	25.40%	15.90%	14.97%	18.65%
Income before zakat, financing expenditures and depreciation	74,624	101,161	125,255	144,505	35.60%	23.80%	15.37%	24.64%
Net income	55,193	76,815	102,742	110,014	39.20%	33.80%	7.08%	25.85%
Gross profit margin	22.4%	22.7%	22.8%	23.2%				
Income margin before zakat, financing expenditures and depreciation	11.1%	12.2%	13.0%	13.3%				
Net income margin	8.2%	9.2%	10.7%	10.1%				

Source: Audited financial statements and the Company Management

Gross profit grew from SAR 150.6 million in 2011G to SAR 251.5 million in 2014G, driven by the growth in total revenues from SAR 672.5 million in 2011G to SAR 1.1 billion in 2014G, as a result of the opening of new branches and increased total retail space. The gross profit margin remained stable between 2011G and 2014G, since most of the cost of sales consists of the cost of goods sold, which remained stable as a percentage of the sales during this period.

Profit before zakat, financing expenditures and depreciation witnessed a growth from SAR 74.6 million in 2011G to SAR 144.5 million in 2014G, driven by the overall growth in operations, represented in the increase in gross profit at a CAGR of 18.7%.

Net Income achieved a CAGR of 25.9%, from SAR 55.2 million in 2011G to SAR 110.0 million in 2014G, driven by the increase in Income from operations for the reasons mentioned above.

6.7 Balance sheet analysis

The following table presents the Company's financial position as at 31 December 2011G, 2012G, 2013G and 2014G.

Table 6.18: The Company's financial position as at 31 December 2011G, 2012G, 2013G and 2014G

Currency: SAR '000	31 December 2011G Audited	31 December 2012G Audited	31 December 2013G Audited	31 December 2014G Audited
Assets				
Current assets				
Cash and cash equivalents	14,732	13,048	13,955	5,185
Accounts receivable	11,234	9,134	11,521	11,606
Inventories	280,544	322,513	417,664	530,431
Prepayments and other receivables	30,470	31,775	55,011	73,813
Total current assets	**336,980**	**376,470**	**498,150**	**621,035**
Non-current assets				
Supplier patronage shares	8,260	8,260	8,260	8,260
Property and equipment, net	90,021			
	97,298	108,078	153,764	
Pre-operating expenses, net	13,367	11,327	8,409	9,580
Total non-current assets	**111,649**	**116,885**	**124,747**	**171,604**
Total assets	**448,629**	**493,355**	**622,898**	**792,639**
Liabilities and shareholders' equity				
Current liabilities				
Short-term borrowings and bank overdrafts	81,445	73,188	110,479	140,102
Current maturity of medium-term borrowings	13,596	16,082	27,667	29,089
Accounts payable	78,256	91,475	114,895	147,871
Accrued and other liabilities	16,668	18,744	39,531	39,704
Accrued zakat	4,082	5,686	4,951	7,858
Total current liabilities	**194,047**	**205,175**	**297,523**	**364,624**
Non-current liabilities				
Medium-term borrowings	28,332	13,090	32,710	21,868
Amounts provided by shareholders	38,733	38,733	-	-
Provision for employee end-of-service benefits	18,762	20,787	24,353	27,821
Total non-current liabilities	**85,826**	**72,610**	**57,063**	**49,689**
Total liabilities	**279,873**	**277,785**	**354,585**	**414,313**
Shareholder's equity				
Share capital	16,000	16,000	16,000	240,000
Statutory reserve	8,000	8,000	8,000	19,001
Retained earnings	144,756	191,570	244,313	119,325
Total shareholders' equity	168,756	215,570	268,313	378,326
Total liabilities and shareholders' equity	**448,629**	**493,355**	**622,898**	**792,639**

Source: Audited financial statements and the Company Management

6.7.1 Accounts receivable

Accounts receivable accounted for 2.5%, 1.9%, 1.8% and 1.5% of the total assets as at 31 December 2011G, 2012G, 2013G and 2014G respectively. Accounts receivable relate to wholesale sales in addition to accounts receivable of the claims relating to operating stores under franchise contracts. The average net accounts receivable collection period (calculated as a percentage of wholesale sales only) was 222, 198, 299 and 290 days as at December 2011G, 2012G, 2013G and 2014G, respectively.

Based on an accounts receivable aging as at December 2014G, 78.4% of the accounts receivable are not yet due, meaning that they are still within the permitted period stipulated in the credit terms granted to customers. Out of these accounts receivable, 41.6% consists of amounts to be paid by one major customer (Saudi Aramco).

Accounts receivable amounted to SAR 2.6 million as at December 2014G, 46.9% of which accounted for the arrears for a period of one to 90 days; 35.4% accounted for the arrears for a period of 90 to 240 days, while 17.6% accounted for the arrears for a period exceeding 240 days.

Total accounts receivable from the five largest customers decreased as at 31 December 2014G to SAR 7.6 million, compared to SAR 8.6 million as at 31 December 2013G as a result of a change in the quantity and quality of sales to those customers during the fourth quarter of 2014G.

During January 2015G, the Company collected approximately 86.9% of all accounts receivable due from the five largest customers as at December 2014G.

The Company is establishing a provision for doubtful debts by allocating 1.5% of credit sales on an annual basis.

6.7.2 Inventory

Inventory accounted for 62.5%, 65.4%, 67.1% and 66.9% of the total assets as at December 2011G, December 2012G, December 2013G and December 2014G respectively. The following table shows the breakdown of the inventory balance.

Table 6.19: Breakdown of inventory

Currency: SAR '000	31 December 2011G Audited	31 December 2012G Audited	31 December 2013G Audited	31 December 2014G Audited
SACO stores and warehouses	237,436	291,170	340,065	514,441
Consignment stock (offered in the branches operating under a franchise license).	9,541	9,340	12,005	16,716
Total inventory	**246,977**	**300,510**	**352,070**	**531,157**
Goods in transit	45,084	35,720	83,561	22,074
Provision for slow-moving items and inventory shortages	(11,517)	(13,717)	(17,967)	(22,800)
Inventory, net	**280,544**	**322,513**	**417,664**	**530,431**
Days inventory outstanding	193	190	196	233

Source: Audited financial statements and the Company Management

As set out in the table above, the balance of the net inventory amounted to SAR 280.5 million by the end of 2011G, and the balance of the net inventory increased by 14.9%, 29.5% and 27.0% as at December 2012G, December 2013G and December 2014G respectively, as a result for the opening of new stores and increased sales volume. The average days inventory outstanding was 202 days between 2011G and 2014G. The increase in the number of inventory days to 233 days as at 31 December 2014G was mainly driven by the Company's expansion in 2014G through the opening of Takhassusi store in Riyadh, which was restored and expanded after the fire (please see Section 11.6 "Insurance"), the new Al Sawari store in Jeddah and the expansion of the SACO World Jeddah store, in addition to preparation of the stores scheduled to open in 2015G. The total inventory written off as a result of the fire at the Takhassusi store was SAR 5.6 million as at 31 December 2013G, and the total inventory written off for Al Ahsa and Badiaa stores was SAR 1.2 million and SAR 0.6 million in 2014G, respectively.

The following table shows the breakdown of inventory by division.

Table 6.20: Breakdown of inventory by division

Currency: SAR '000	31 December 2011G Audited	31 December 2012G Audited	31 December 2013G Audited	31 December 2014G Audited
Housewares	49,555	63,268	72,059	128,794
Do-it-yourself	33,911	39,899	20,593	46,651
Equipment, Tools and Building Materials	40,073	47,613	53,820	73,039
Outdoor Supplies	44,840	52,435	88,412	138,056
Power Tools	53,337	65,873	83,761	107,265
Other	25,261	31,422	33,425	37,352
Total inventory	**246,977**	**300,510**	**352,070**	**531,157**

Source: The Company Management

Between December 2011G and December 2012G, inventory rose in all product categories. The increase in inventory between December 2012G and December 2013G is largely due to the rise in inventory for the Outdoor Supplies and Power Tools categories, as the Company follows the policy of maintaining the inventory level by the expected demand and thus it increases the inventory level when additional sale opportunities are available for certain product categories. In contrast, inventories of other categories may be reduced if the Company believes that there is no need to increase the inventory due as big sales are not expected. Between December 2013G and December 2014G, inventory also grew in all product divisions, especially in the Housewares and Outdoor Supplies divisions as a result of the reclassification of certain categories from the Do-it-yourself division to these divisions. The Company also expects sales to increase in 2015G in conjunction with the opening of new stores, so it has prepared the inventory to be commensurate with the size and quality of the demand anticipated in the next year.

The Company operates three warehouses, two of which are located in Riyadh and the other in Jeddah. The total area of the two warehouses in Riyadh was 60,963 square meters as at 31 December 2014G, while the Jeddah warehouse had an area of 2,000 square meters as at the same date. The Company's inventory department follows specific procedures to ensure the protection of the inventory in the warehouses and branch storage areas by ensuring that all fire extinguishing systems have been approved by the Civil Defense, that all of them are under valid maintenance contracts and that installed security systems and all inventory transport equipment are periodically maintained to ensure readiness for operation. The Company also insures its entire existing inventory.

The inventory department monitors certain products that are relatively high in value and small in size (which increases the likelihood of them being lost or stolen). Such products are subject to constant monitoring and are inventoried periodically, with periods ranging from once a week to once a month. The Company relies on the analysis of inventory shortages during the preceding twelve months to determine the products that fall under this category.

The Company also makes periodic inventories of certain randomly selected divisions in each store or warehouse once every year. In addition, the following year the Company makes inventories of the remaining inventory that not inventoried the previous year. Consequently, all divisions of the Company's branches and warehouses are inventoried at least once every two years. All branches operating under franchise licenses are inventoried at least once a year.

The ERP System allows for inventory follow-up by informing the Procurement Management Department when inventory levels falls to certain rates specified in the system. The system also issues reports to control transfers between warehouses and branches and monitor damaged and expired goods. The Company disposes of damaged and expired goods when the team responsible for inventory control is notified by the Company's ERP system of such goods.

Until the end of 2013G, the Company made a monthly provision of 1.25% of net sales for inventory shortages (excluding the franchise stores, since they are responsible for any differences in the inventory), from which the inventory that was written off following the periodic inventory during the year was deducted. Beginning in 2014G, the Company amended this percentage to a minimum of 1% in order to be in line with the inventories of past years. The settlements between the carrying amount of the inventory and actual inventory between 2011G and 2014G have not exceeded 1% of the net sales compared to the international indicators for the retail sector (according to the reports received by the Company from Ace International), which reach a maximum of 3.5% of net sales. A monthly provision of 0.25% of net sales is also being allocated for slow-moving or stagnant goods.

As for the age of the Company's inventory, inventory aged less than 120 days accounted for 55.8% of the Company's total inventory as at December 2014G, while inventory aged more than 361 days was 10.1% of the total inventory.

Table 6.21: Age of inventory analysis

Currency: SAR '000	1-30 days	31-60 days	61-120 days	121-240 days	241-360 days	361-720 days	More than 721 days	Total
Total	80,534	89,173	126,764	117,552	63,494	53,381	8	530,906
Percentage of total	15.2%	16.8%	23.9%	22.1%	12.0%	10.1%	0.0%	100.0%

Source: The Company Management

*Inventory age analysis is performed on the basis of goods located in warehouses and stores only, whereby goods in transit (22,074 thousand) and goods being delivered (251 thousand) are not taken into account. Moreover, slow moving goods and inventory shortages are also not taken into account (22,800 thousand).

Due to the nature of the products making up the Company's inventory, which generally do not expire or go bad over time, the Company does not rely on monitoring the age of inventory, rather its role is limited to monitoring the slow-moving products that were not sold during the preceding twelve-month period. The value of these products is compared to the provision for the slow moving goods, which is calculated as 0.25% of net sales. The amount of this provision was SAR 10.8 million as at December 2014G. The Company believes that this provision covers the value of the slow-moving products as at December 2014G. The Company's management did not write off any inventory between 2011G and 2014G due to the nature of inventory which does not grow old over time and the Company's ability to liquidate slow-moving goods at attractive prices through marketing campaigns.

With regard to seasonal factors, it is worth mentioning that inventory levels often increase in the third quarter and beginning of the fourth quarter of each year. This is due to the fact that a portion of the purchases are made in the first quarter and the beginning of the second quarter of each year since representatives of the Company's Procurement Management Department attend international exhibitions in China, the United States and Germany where the products the Company wishes to purchase are selected. Purchase orders are issued during the same period, and the suppliers need a period (lead time) ranging from three to five months to deliver the goods to the Company, which means they appear in the Company's inventory in the third quarter and the beginning of the fourth quarter.

6.7.3 Prepayments and other receivables

This item mainly consists of rent expenses paid in advance and the amounts to be collected from insurance companies. The increase of the prepayments and other receivables from SAR 30.5 million as at December 2011G to SAR 31.8 million as at December 2012G is mainly due to the amounts due from the Human Resources Development Fund, which amounted to SAR 4.5 million and was related to support for Saudi employees' salaries.

Prepayments and other receivables amounted to SAR 55 million as at December 2013G, due to the recording of SAR 10.4 million due from the insurance company as compensation for the fire which occurred in the Takhassusi store in Riyadh, the fire in Al Ahsa store and rainwater damage to the Badiaa store (please see Section 11.6 "Insurance"). The Company has written off the assets and inventory damaged in these incidents and recorded in return the same amount as due from the insurance company. The value of the total claim for the incident that occurred in the Takhassusi store was SAR 25.2 million as compensation for the damaged inventory, restoration of the building and damaged fixed assets and for the cost of work suspension, which is being studied by the insurance company. The total value claimed for the fire that occurred in Al Ahsa store was SAR 3.1 million and SAR 1.3 million was claimed for the Badiaa store. The total value of the amounts due from the insurance company as at 31 December 2014G was SAR 14.8 million, as a result of additional amounts calculated for an insurance company related to this incident totaling SAR 10.7 million and due to the receipt in 2014G of SAR 6.3 million out of the total amounts due from the insurance company. (For more details about the assets written off as a result of these incidents, please see the section "Analysis of property and equipment" and the "Inventory" section.)

The Company management also appointed ACE Insurance Consultants Ltd., to study the risks of all of the Company's branches. The insurance consultant identified several proposals which the Company started implementing in 2014G.

The table below shows a summary of incidents related to the amounts due from insurance companies as at December 2014G.

Table 6.22: Summary of incidents related to the amounts due from insurance companies as at 31 December 2014G (SAR million)

Incident	Assets written off	Amounts claimed	Amounts recorded as due from the insurance company	Notes
Takhassusi store fire on 11 September 2013G	8.9	25.2	12.3	• SAR 5 million was received as a first payment from the insurance company • Amounts recorded as due from the insurance company only include the fixed assets, inventory and building improvements that have been written off
Rainwater damage to the Badiaa store on 17 November 2013G	1.2	1.3	0	• The amount was received in full in October 2014G
A fire in the Al Ahsa distribution center on 1 October 2013G	0.6	3.1	2.5	• No amounts have been received in connection with this incident as of the date of this Prospectus

Source: The Company Management

The balance of prepayments and other receivables increased to SAR 73.8 million on 31 December 2014G due to the high amounts due from the insurance companies as mentioned above, in addition to the increase in health insurance expenses from SAR 1.0 million on 31 December 2013G to SAR 2.2 million as at 31 December 2014G as a result of the renewal of the health insurance contract for employees, which ended in May 2014G. Prepaid rents increased from SAR 14.0 million as at 31 December 2013G to SAR 15.1 million as at 31 December 2014G as a result of the opening of a new store in Jeddah during 2014G in addition to renting a building in Jizan for the opening of a new store in 2015G, and another building in Riyadh for the opening of a new store in the Dir'iya area of Riyadh which is expected to commence operations during the second half of 2015G. In addition, the Company has contracted with three companies specializing in software maintenance and telecommunications network infrastructure, contributing to increasing prepaid maintenance expenses to SAR 0.9 million on 31 December 2014G compared to SAR 0.2 million as at 31 December 2013G. Prepaid labor expenses, which mainly consist of rent and housing allowances for employees contributed to this rise, driven by the increase in employee numbers during 2014G.

Prepayments also include Offering expenses, which amounted to SAR 4.1 million as at 31 December 2014G and consist of the fees for the Auditor, Financial Advisor and Legal Advisor, which will be collected upon listing of the Company's shares by deducting them from the Net Proceeds.

6.7.4 Shares owned in an overseas supplier

This item represents the nominal value of the shares owned by the Company in Ace International. SACO considers these shares as a long-term strategic investment in an essential resource. As at December 2011G, 2012G, 2013G and 2014G, the number of shares owned by the Company was 22,022 class A-2 shares with a nominal value of SAR 375 (USD 100) per share.

Table 6.23: Investment movement in the supplier's shares

Currency: SAR '000	31 December 2011G Audited	31 December 2012G Audited	31 December 2013G Audited	31 December 2014G Audited
Balance at the beginning of the year	8,524	8,260	8,260	8,260
Adjustments	(187)	-	-	-
Paid amounts	(77)	-	-	-
Balance at the end of the year	**8,260**	**8,260**	**8,260**	**8,260**

Source: Audited financial statements

Until the end of November 2010G, the Company was subject to the terms of a cooperative membership agreement signed with the overseas supplier (Ace Hardware), through which the latter is granted rebates on total SACO purchases. Ace Hardware pays these rebates in cash and by patronage refund certificates as well as through nominal shares in Ace Hardware. As at December 2011G, amendments made amounting to SAR 186,459 are due to the correction of the differences between the rebate estimates made by the Company and Ace Hardware according to the terms of the cancelled cooperative membership agreement. The amounts paid valued at SAR 76,589 as at December 2011G represent the settlement of the last patronage refund certificate.

After Ace International was established as a limited liability company in November 2010G, the shares in Ace Hardware granted to the Company by the supplier (10 A class shares and 14,512 C class shares) were transferred into A-2 class shares in Ace International. The Company also purchased an additional 7,500 shares with a nominal value of SAR 375 (USD 100) per share, increasing SACO's total shares in Ace International to 22,022 shares. Class A-2 shares qualify their holders to earn dividends and grant them the right to vote.

In January 2013G, KPMG re-evaluated the A-2 class shares, which showed that the share value had risen to USD 127, in an increase of 27%. However, the Company continues to invest a nominal value of USD 100 per share.

6.7.5 Property and equipment

The net carrying amount for property and equipment accounted for 19.1% of the Company's total assets as at December 2014G. The following table presents the Company's asset breakdown as at 31 December 2011G, 2012G, 2013G and 2014G:

Table 6.24: The Company's property and equipment as at 31 December 2011G, 2012G, 2013G and 2014G

Currency: SAR '000	Improvements to leased property	Furniture and fixtures	Computer hardware and software	Vehicles	Tools and equipment	Construction in progress	Land	Total
Cost as at 1 January 2011G	43,389	38,621	12,010	3,125	3,019	817	-	100,981
Additions	24,324	9,709	2,542	988	1,007	-	-	38,570
Disposals	-	(1,315)	(163)	(59)	-	-	-	(1,537)
Transfers	395	-	-	-	-	(395)	-	-
Total cost as at 31 December 2011G	**68,108**	**47,015**	**14,389**	**4,054**	**4,026**	**422**	**-**	**138,014**
Depreciation as at 31 December 2011G	(13,570)	(23,297)	(8,334)	(2,002)	(2,210)	-	-	(49,413)
Disposals	-	1,222	139	59	-	-	-	1,420
Net carrying amount as at 31 December 2011G	**54,538**	**24,940**	**6,194**	**2,111**	**1,816**	**422**	**-**	**90,021**
Cost as at 1 January 2012G	68,108	47,015	14,389	4,054	4,026	422	-	138,014
Additions	7,157	5,260	1,617	2,077	1,174	5,125	-	22,410
Disposals	-	(102)	(316)	(1,431)	(488)	-	-	(2,337)
Total cost as at 31 December 2012G	**75,265**	**52,173**	**15,690**	**4,700**	**4,712**	**5,547**	**-**	**158,087**
Total depreciation as at 31 December 2011G	(19,710)	(26,658)	(10,192)	(2,768)	(3,004)	-	-	(62,332)
Disposals	-	63	315	902	263	-	-	1,543
Net carrying amount as at 31 December 2012G	**55,555**	**25,578**	**5,813**	**2,834**	**1,971**	**5,547**	**-**	**97,298**

Currency: SAR '000	Improvements to leased property	Furniture and fixtures	Computer hardware and software	Vehicles	Tools and equipment	Construction in progress	Land	Total
Cost as at 1 January 2013G	75,265	52,173	15,690	4,700	4,712	5,547	-	158,087
Additions	1,312	2,456	23,647	1,002	1,661	491	-	30,569
Disposals	(1,565)	(6,075)	(7,779)	-	(1,660)	-	-	(17,079)
Transfers / reclassification	5,880	(10,692)	2,428	100	7,372	(5,088)	-	-
Total cost as at 31 December 2013G	**80,892**	**37,862**	**33,986**	**5,802**	**12,085**	**950**	**-**	**171,577**
Total depreciation as at 31 December 2013G	(27,610)	(30,136)	(11,562)	(3,065)	(4,713)	-	-	(77,086)
Disposals	1,035	5,203	6,584	-	764	-	-	13,586
Transfers / reclassification	(2,427)	4,532	937	(100)	(2,942)	-	-	-
Net carrying amount as at 31 December 2013G	**51,890**	**17,461**	**29,945**	**2,637**	**5,194**	**950**	**-**	**108,077**
Cost as at 1 January 2014G	80,892	37,862	33,986	5,802	12,085	950	-	171,577
Additions	26,404	6,406	7,992	636	4,912	11,373	17,768	75,491
Disposals	(52)	(155)	(6)	-	(128)	(275)	-	(616)
Transfers / reclassification	(6,994)	(9)	9	-	0	(586)	-	(7,580)
Total cost as at 31 December 2014G	**100,250**	**44,104**	**41,981**	**6,438**	**16,869**	**11,462**	**17,768**	**238,872**
Total depreciation as at 31 December 2014G	(37,674)	(23,892)	(10,144)	(4,338)	(9,173)	-	-	(85,221)
Disposals	52	56	5	-	-	-	-	113
Net carrying amount as at 31 December 2014G	**62,628**	**20,268**	**31,842**	**2,100**	**7,696**	**11,462**	**17,768**	**153,764**

Source: Audited financial statements and the Company Management

The annual increase in the Company's property and equipment between December 2011G and December 2014G is due to expansion activities, especially relating to the establishment of new branches in 2011G and 2012G, as well as the addition of the Company's ERP system in 2013G, the re-opening of the Takhassusi store in Riyadh and the opening of Al Sawari store in Jeddah in 2014G. The Company also purchased a land in order to build a new building for the management in Riyadh and began fitting out new stores set to open in 2015G.

As at December 2014G, property and equipment mainly consisted of improvements to leased properties, in addition to computer hardware and software. The net carrying amount of the improvements represented 40.7% of the property and equipment, while computer hardware and software accounted for 20.7%. The cost of the ERP system was SAR 33.6 million and its carrying amount was SAR 28.3 million as at December 2014G.

The leasehold improvements account represents the net carrying amount of the Company's investments in developing the leased properties. Additions to this account in 2011G mainly consist of SAR 14.3 million for the SACO World Dhahran store, the Company's largest store, in addition to SAR 9.5 million for Al Ahsa store. The additions of SAR 7.2 million in 2012G are mainly connected to improvements related to the establishment of the new Al Qasr store in Riyadh. In 2014, additions to leasehold improvements amounted to SAR 26.4 million, primarily related to the opening of Al Sawari store and the expansion of the SACO World store in Jeddah, in addition to the reopening of the Takhassusi store after it was restored and expanded in Riyadh.

The furniture and fixtures items mainly consist of store equipment including shelves, banners and accessories. It also includes office furniture, staff housing, warehouse equipment and shopping carts and baskets.

Tools and equipment consists of the branches' security systems, including, for example, monitoring devices, sensors, and other items to combat theft as well as forklifts.

The net carrying amount for vehicles amounted to SAR 2.1 million as at 31 December 2014G. This item consists of 30 vehicles in addition to their accessories. The Company has decided to meet its need for additional vehicles through operating leases, for simplifying and lowering costs, and the possibility of being provided with alternative vehicles within a short period of time when needed. The total number of leased vehicles was 98 vehicles as at 31 December 2014G.

In 2014G, the Company purchased a plot of land in Riyadh in order to construct a new building for the management. This land is valued at SAR 17.8 million and was vacated for the Company in February 2014G.

Additions to projects under construction amounted to SAR 11.4 million as at December 2014G. These consist mainly of the construction and preparation work for Al Aliah Plaza store, valued at SAR 9.0 million and the amounts spent by the Company as of 31 December 2014G on the new administration building and the preparation of stores in Jizan and Dir'iya.

Property and equipment are depreciated on a straight-line basis over the life span. The following table shows the depreciation rates applied and the life span for each class of property and equipment.

Table 6.25: Asset depreciation rates approved by the Company

Group	Number of years	Depreciation rate
Furniture and fixtures	4-20	5%-25%
Computers hardware and software	2-7	14.3%-50%
Vehicles	4	25%
Tools and equipment	4-7	14.3%-25%
Leasehold improvements	The life span or lease period, whichever is shorter	

Source: Audited financial statements

The Company has not changed the approved depreciation policy between the years of 2011G and 2014G and up to the date of this Prospectus and the Company has no the intention of changing the asset depreciation calculation policy in the foreseeable future.

During 2013G, the Company excluded fixed assets in the amount of SAR 3.4 million as a result of the fire in the Takhassusi store. No fixed assets have been excluded for Al Ahsa and Badiaa stores.

The Company does not believe there is a need to re-evaluate its assets since it does not own material non-current assets with the exception of the head office. The land on which the head office is currently being built has been purchased and the Management expects the work to be completed in the second half of 2016G.

6.7.6 Pre-operating expenses

Pre-operating expenses consist of lease expenditures, salaries and advertising expenses prior to operation of the new branches, and are amortized over a period from 5 to 7 years after the branches open. Pre-operating expenses for the period between 2011G and 2012G are mainly due to the opening of the SACO World store in Al Ahsa, the SACO World Dhahran store and Al Qasr store in Riyadh. Pre-operating expenses decreased between 2011G and 2012G due to amortization, which exceeded the additions related to the opening of branches. Pre-operating expenses were not capitalized during 2013G as no new stores were opened.

In 2014G, pre-operating expenses increased by SAR 1.2 million, as the Company registered pre-operating expenses of SAR 3.8 million related to the opening of the new Al Sawari store in Jeddah in May 2014G and the re-opening of Takhassusi store in Riyadh in June 2014G. Such expenses were offset by an amortization of SAR 2.6 million in 2014G.

6.7.7 Accounts payable

This item consists of trade accounts payable, non–trade accounts payable and amounts due to related parties. The following table presents this item's breakdown as at December 2011G, 2012G, 2013G and 2014G.

Table 6.26: The Company's accounts payable breakdown as at 31 December 2011G, 2012G, 2013G and 2014G

Currency: SAR '000	31 December 2011G Audited	31 December 2012G Audited	31 December 2013G Audited	31 December 2014G Audited
Trade accounts payable	63,817	71,031	70,993	107,728
Non-trade accounts payable (services)	9,394	9,211	26,916	39,347
Amounts due to related parties	5,045	11,234	16,986	796
Total	**78,256**	**91,475**	**114,895**	**147,871**
Days payable outstanding (trade and non-trade)	67	63	69	78

Source: Audited financial statements and the Company Management

The increase in trade accounts payable of SAR 7.2 million between December 2011G and December 2012G is driven by the increased purchases during 2012G to meet the growing business level.

Trade accounts payable increased during 2014G to SAR 107.7 million compared to SAR 71.0 million as at December 2013G. This increase is due to higher purchases in line with the continued growth in the level of sales.

Trade accounts payable accounted for 72.9% of the total accounts payable as at December 2014G. As at December 2014G, SAR 2.1 million of the total trade accounts payable was due under the payment terms granted by suppliers, having exceeded its due date (a 240-day period).

Non-trade accounts payable rose as at 31 December 2013G compared to 31 December 2012G as a result of the accrued consulting expenses for the ERP System in addition to the costs of building the SACO Al Qasr store in Riyadh and other miscellaneous expenses (customs clearance, shipment, printing, advertising, etc.). The year 2014G witnessed a continuous growth in non-trade accounts payable amounting to SAR 12.4 million, as a result of preparation work for Al Aliah Plaza store in Riyadh, in addition to several advertising campaigns conducted by the Company during 2014G which resulted in non-trade accounts payable valued at SAR 7 million as at 31 December 2014G.

Breakdown of the amounts due to related parties

As at December 2011G, 2012G and 2013G, the amounts due to related parties consist of the amounts due to shareholders as compensation for their role in business administration, in addition to the amounts due from Al Hamidi Contracting Establishment Company associated with certain government expenses related to employees and other Company expenses paid by SACO on its behalf. These expenses include social insurance, rent and maintenance. These balances were closed in full as at 31 December 2014G.

In December 2014G, the amounts due to related parties mainly consist of the amounts due to SAMACO, resulting from the purchase of products to be resold by SACO in its stores, such as children's toys, furniture for children's rooms, ready to install swimming pools for home gardens, kids electric cars and bicycles.

The following table shows the breakdown of the amounts due to related parties:

Table 6.27: Breakdown of amounts due to related parties

Currency: SAR '000	31 December 2011G Audited	31 December 2012G Audited	31 December 2013G Audited	31 December 2014G Audited
Management Fees (Al Hamidi)	9,308	15,770	20,457	-
Al Hamidi Contracting Establishment Company	(4,263)	(4,536)	(3,471)	-
SAMACO	-	-	-	794
Sameer Al Hamidi	-	-	-	2
Khalid Al Hamidi	-	-	-	-
Haytham Al Hamidi	-	-	-	-
Total	**5,045**	**11,234**	**16,986**	**796**

Source: The Company Management

6.7.8 Zakat Provision

Zakat represents the remaining balance of the amounts due to DZIT on the basis of the Company's assessment of the zakat base (income subject to zakat under DZIT regulations).

Pursuant to DZIT regulations, the accrued zakat is 2.5%, calculated based on the approximate zakat base or the adjusted net income, whichever is higher. The following table shows the breakdown of the zakat base calculation as at 2011G, 2012G, 2013G and 2014G.

Table 6.28: Breakdown of zakat base calculation

Currency: SAR '000	2011G	2012G	2013G	2014G
Shareholders' equity as at the beginning of the year	129,163	168,756	215,570	268,313
Net adjusted income for the year	69,267	93,225	121,852	137,319
Advances from shareholders	38,733	38,733	-	-
Medium-term borrowings based on the DZIT	28,632	27,053	13,447	33,192
Provisions as at the beginning of the year	23,051	27,009	32,364	39,816
Property and equipment and pre-operating expenses (net) as per the DZIT	(116,302)	(125,781)	(133,177)	(161,259)
Paid dividends	(15,600)	(30,000)	(50,000)	-
Long-term investment – supplier patronage shares	(8,260)	(8,260)	(8,260)	(8,260)
Approximate zakat base	**148,683**	**190,734**	**191,797**	**309,120**

Source: Audited financial statements

The zakat paid was SAR 2.8 million, SAR 3.7 million, SAR 4.8 million and SAR 4.7 million for the years 2011G, 2012G, 2013G and 2014G respectively.

6.7.9 Accrued and other current liabilities

Table 6.29: Breakdown of accrued and other current liabilities

Currency: SAR '000	31 December 2011G	31 December 2012G	31 December 2013G	31 December 2014G
Accrued expenses	10,270	12,538	24,875	21,565
Other	6,398	6,206	14,656	18,139
Total other payables	**16,668**	**18,744**	**39,531**	**39,704**

Source: The Company Management

On average, accrued expenses accounted for 60.4% of the total accrued and other current liabilities between December 2011G and December 2014G. Accrued expenses primarily consist of commissions and salaries due to employees.

The increase in accrued expenses from SAR 10.3 million in December 2011G to SAR 12.5 million in December 2012G is driven by the increase in the balance of the commissions due to employees. This is attributed to the growth of the Company's retail sales and consequent increase in sales commissions which are calculated on the basis of the base salary of the branch manager and sales employee, taking into account the performance evaluation and achievement of sales targets.

Accrued expenses increased in 2013G to SAR 24.9 million due to the increase in salaries due as at December 2013G. This was the result of SABB's payment (after the Company terminated the salary transfer agreement through the Arab National Bank and appointed SABB in 2013G) of the salaries for the month of December 2013G, which amounted to SAR 3.7 million at the beginning of 2014G, in addition to a rise in the remaining payable staff allowances of SAR 9.2 million as at December 2013G compared to December 2012G. This increase is also driven by the high staff commissions amounting to SAR 1.5 million as at December 2013G, and the higher rents to be paid, estimated at SAR 4.0 million as at December 2013G.

Accrued expenses decreased from SAR 24.9 million in December 2013G to SAR 21.6 million in December 2014G, mainly driven by lower payable salaries amounting to SAR 3.7 million and the decline in payable commissions amounting to SAR 1.9 million, in addition to the decline in other payable staff allowances (airline tickets, remunerations and vacations due) amounting to SAR 1.5 million. This decrease was offset by an increase in rents due amounting to SAR 3.4 million as at December 2014G as a result of the rental of new buildings that same year for stores in addition to the rental of an additional space for a warehouse in Riyadh as well as by a slight increase in the balances of other accrued expenses amounting to SAR 0.4 million as at December 2014G.

On average, other payables accounted for 39.6% of the total accrued and other current liabilities between 2011G and 2014G. The following table shows the breakdown of other payables.

Table 6.30: Breakdown of other payables

Currency: SAR '000	31 December 2011G	31 December 2012G	31 December 2013G	31 December 2014G
Gifts vouchers and cards	5,576	5,523	13,991	17,586
Deferred revenues	822	683	665	553
Total other payables	**6,398**	**6,206**	**14,656**	**18,139**

Source: The Company Management

Other payables consist of gifts cards that have been issued but not used by customers, in addition to deferred rent revenues received in advance from tenants of some spaces within the branches of the Company.

Other payables remained stable between December 2011G and December 2012G and then grew by SAR 8.5 million in December 2013G as a result of the increase in the issuance of gift vouchers for senior corporate customers valued at approximately SAR 5.5 million in 2013G. Other payables increased by 24% in December 2014G compared to December 2013G, driven by the rapid growth in the Company's activity, which led to the issuance of a large number of vouchers. Most of these vouchers were issued to Saudi Aramco. These vouchers are recognized by the Company at nominal value less the rebate granted (if any) in accounts receivable, in turn, the same amount is recognized as a deferred revenue under other payables. Once received from the customer, the payables are paid against cash. Once these vouchers are used, the net value of the deferred revenue account is written off and in turn the nominal value of such vouchers is recognized as sales in the income statement and rebates granted for vouchers (the difference between the voucher's nominal value and net value) are recorded as deductions of sales in the income statement.

6.7.10 Current and non-current borrowings

The following table shows current and non-current borrowings for the period between December 2011G and December 2014G.

Table 6.31: Borrowings and facilities obtained by the Company as at 31 December 2011G, 2012G, 2013G and 2014G

Currency: SAR '000	31 December 2011G Audited	31 December 2012G Audited	31 December 2013G Audited	31 December 2014G Audited
Short-term borrowings (excluding commercial papers)	73,608	70,269	91,510	127,386
Overdrafts	7,232	1,776	18,285	12,252
Commercial papers	605	1,143	683	464
Short-term borrowings and bank overdrafts	**81,445**	**73,188**	**110,479**	**140,102**
Current maturity of medium-term borrowings	13,596	16,082	27,667	29,089
Total short-term borrowings	**95,041**	**89,270**	**138,145**	**169,191**
Non-current maturity of medium-term borrowings	28,332	13,090	32,710	21,868
Total short- and medium-term borrowings	123,373	102,360	170,855	191,059
Amounts provided by shareholders	38,733	38,733	-	-
Total borrowings and amounts paid by the shareholders	**162,106**	**141,093**	**170,855**	**191,059**

Source: Audited financial statements and the Company Management

The total borrowings outstanding on the Company accounts amounted to SAR 162.1 million, SAR 141.1 million, SAR 170.9 million and SAR 191.1 million in the years 2011G, 2012G, 2013G and 2014G respectively. The Company's borrowings include short and medium-term facilities obtained from several local commercial banks. These borrowings result in financial burdens and interest at the prevailing prices on the market and based on the SIBOR interest rate.

The Company obtained a medium-term loan in the amount of SAR 12.0 million in 2014G. The purpose of this loan was to buy land for building the Company's new head office in Riyadh. This loan is to be paid in quarterly installments until April 2018G.

The following table shows the payment schedule for the medium-term borrowings obtained by the Company as at 31 December 2014G.

Table 6.32: Payment schedule for the loan obtained by the Company from SABB

Currency: SAR '000	2016G	2017G	2018G	Total
SABB	9,009	9,009	3,850	21,868

Source: The Company Management

The following table shows the classification of the facilities obtained by the Company as at 31 December 2014G.

Table 6.33: Classification of facilities granted to the Company and their related guarantees as at 31 December 2014G

Bank	Type facilities available		Guarantees	Facility credit limit as at 31 December 2014G (SAR '000)	Facilities used as at 31 December 2014G (SAR '000)**
The Saudi Investment Bank	Islamic facilities agreement including:				
	1) Medium-term Murabaha facility	Islamic	Relative, irrevocable and unconditional personal guarantees	15,000	10,559
	2) Letters of credit and funding thereof	Islamic		70,000	57,006
Total				**85,000**	**67,565**
Banque Saudi Fransi	Islamic facilities agreement including:				
	1) Short-term borrowings and Tawarruq financing	Islamic	A promissory note, personal letters of guarantee and companies	14,000	13.584
	2) Letters of credit and short-term borrowings	Islamic		48,000	30.736
	3) Multi-purpose letters of guarantee	Islamic		2,187	680
Total				**64,187**	**45.000**
The Saudi British Bank (SABB)	Islamic facilities agreements including:				
	1) Murabaha Funding	Islamic		10,000	10.048
	2) Murabaha Funding	Islamic		10,901	10.901
	3) Murabaha Funding	Islamic		5,309	5.309
	4) Murabaha Funding	Islamic*		3,015	3.015
	5) Letters of credit and funding thereof	Islamic		50,000	48.597
	6) Various guarantees	Islamic		2,000	92
	7) Hedging facilities against currency exchange rate fluctuations	Islamic		5,000	-
	8) Islamic cash account(1)	Islamic		5,000	12.252
	9) Murabaha financing to fund shareholder advances			15,215	15.215

Bank	Type facilities available		Guarantees	Facility credit limit as at 31 December 2014G (SAR '000)	Facilities used as at 31 December 2014G (SAR '000)**
	10) Murabaha Funding	Islamic*		12,820	12.820
	11) Murabaha Funding	Islamic*		2,512	2.512
	12) Murabaha Funding	Islamic*		1,185	1.185
	13) Credit cards	Islamic		100	-
Total				**123,057**	**121.946**
Total facilities as at 31 December 2014G				**272.244**	**234,511****
Total guarantees and letters of credit outstanding as in the financial statement disclosures for the period of 31 December 2014G					**43,453**
Total facilities as in the financial statements for the period ended on 31 December 2014G					**191,059**

Source: The Company Management

*These facilities were originally traditional credit facilities and were fully converted into Islamic facilities upon signing of the Islamic Murabaha agreement with SABB bank prior to 31 December 2013G. The total amount of these facilities is SAR 18.4 million as at 31 December 2014G. Therefore all facilities signed with the banks are Islamic facilities.

**Balances of the used facilities include the profit margins due up to the date of the financial statements.

(1) Facilities obtained by the Company include SAR 3.1 million as checks issued by the Company that have not yet been delivered to the beneficiaries. These facilities also include SAR 9.1 million as checks issued by the Company that were delivered to the beneficiaries in December, but were not presented to the bank for collection on the date the financial statements were issued.

Table 6.34: Terms of the loan agreement with banks and the extent of the Company's compliance with these terms

Credit facilities	Agreement Terms	31 December 2011G	31 December 2012G	31 December 2013G	31 December 2014G
Multi-purpose credit facilities - The Saudi Investment Bank	Maximum borrowings to net tangible value ratio * 1:2.5	✓	✓	✓	✓
	Minimum trading ratio 1:1.25	✓	✓	✓	✓
	30% deposit of sales in the Company's account at the bank	✓	✓	✓	✓
	Maximum dividends of 75% of the net income	✓	✓	✓	✓
Multi-purpose credit facilities - Banque Saudi Fransi	Maximum borrowings to total shareholders' equity ratio: 2:1	✓	✓	✓	✓
	Minimum trading ratio 1:1.5	✓	✓	✓	✓
	30% deposit of sales in the Company's account at the bank	✓	✓	✓	✓
	Minimum partners' equity in the Company of SAR 250 million	N/A	N/A	N/A	✓
	Maximum dividends of 50% of the net income	✓	✓	✓	N/A**
Multi-purpose credit facilities - The Saudi British Bank (SABB)	No terms				

Source: The Company Management

*The net tangible value represents the total paid-up capital plus the retained earnings and reserves, less the total of any amounts shown in the client's account and related to valuation (appreciation) reserve and goodwill, or any intangible asset (assets) and any amounts payable to customers including partners, related parties or associates.

** This requirement applies to the medium-term loan balance, which was outstanding at the date the facility agreement dated 02/01/2014G was concluded. Such balance was paid in full as of December 2014G.

The banking facilities obtained by the Company include overdraft facilities, borrowings, letters of credit, letters of guarantee and notes payable used to finance working capital requirements.

In 2013G, the Company's indebtedness rose to SAR 170.8 million as a result of the new borrowings obtained by the Company from banks to fund the purchase of a new ERP system and pay the amounts provided by the shareholders.

The Company's high indebtedness as at December 2014G is due to the new borrowings obtained by the Company from banks for the purpose of funding the purchase of a piece of land in Riyadh for the Company's new head office in addition to funding the Company's activity by preparing the Takhassusi and Al Sawari stores and funding the increase in working capital items.

All aforementioned facilities are guaranteed by a personal guarantee from direct and indirect shareholders or companies owned by the founding partners of the Company (for more details, please see Section 11.7, "Banking Facilities"). Some of these facilities, traditional and Islamic, are subject to a number of terms that must be abided by in accordance with the agreements concluded with the banks; none of these terms have been breached as of the date of this Prospectus. The Company pays its financial obligations arising from the facilities on the specified due dates and thus the Company has not been subject to any late payment fees as of the date of this Prospects.

The Members of the Board of Directors and the Senior Management declare that there are no mortgages, rights or encumbrances on the Company's properties.

The Members of the Board of Directors and the Senior Management also declare that there are no commitments under acceptance, credit acceptance or lease purchase commitments.

6.7.11 Provision for employee end-of-service benefits

A provision for employee end-of-service benefits was recognized in accordance with the Saudi Labor Law. The balance of this item grew at a CAGR of 14.0% between 2011G and 2014G due to the increase in the number of the employees from 1,549 employees as at December 2011G to 2,035 employees as at December 2014G.

6.7.12 Amounts provided by shareholders

The amounts provided by shareholders represent the amounts paid by the shareholders to the Company in the form of interest-free borrowings in April 2008G to finance the plans to expand in the Saudi market. All of these borrowings were paid to shareholders in December 2013G through the medium-term loan of SAR 30 million obtained from SABB, in addition to the payment of SAR 8.7 million in cash from the Company.

6.7.13 Shareholder's equity

The following table shows the breakdown of the shareholders' equity as at 31 December 2011G, 2012G and 2014G.

Table 6.35: Breakdown of shareholders' equity as at 31 December 2011G, 2012G, 2013G and 2014G

Currency: SAR '000	31 December 2011G Audited	31 December 2012G Audited	31 December 2013G Audited	31 December 2014G Audited
Share capital	16,000	16,000	16,000	240,000
Statutory reserve	8,000	8,000	8,000	19,001
Retained earnings	144,756	191,570	244,313	119,325
Total shareholders' equity	**168,756**	**215,570**	**268,313**	**378,326**

Source: Audited financial statements and the Company Management

Total shareholders' equity increased by SAR 209.6 million between December 2011G and December 2014G. This is mainly due to the significant increase in retained earnings during the same period, driven by rising net income. The Company distributed dividends of SAR 15.6 million in 2011G, SAR 30 million in 2012G and SAR 50 million in 2013G. The Company did not distribute any dividends in 2014G.

The capital was increased on 26 May 2014G by SAR 224.0 million through capitalization of a portion of the retained earnings.

6.7.14 Contingent liabilities not recognized on the balance sheet

The Company is not exposed to significant financial obligations that might result from disputes or litigation.

Within the scope of its business, the Company uses letters of credit and bank letters of guarantee. The letters of credit are used to buy goods from overseas suppliers, while local banks issue letters of guarantee on behalf of the Company to ensure payment and good performance.

Table 6.36: Contingent liabilities as at 31 December 2011G, 2012G, 2013G and 2014G

Currency: SAR '000	31 December 2011G Audited	31 December 2012G Audited	31 December 2013G Audited	31 December 2014G Audited
Letters of credit	30,638	34,264	50,618	41,831
Letters of guarantee	0	0	279	1,622
Total	**30,638**	**34,264**	**50,897**	**43,453**

Source: Audited financial statements

The Company's capital liabilities amounted to SAR 5.6 million as at December 2014G, which are primarily related to the Company's stores, as shown in the following table.

Table 6.37: Capital liabilities as at December 2014G

Currency: SAR million	31 December 2014G Audited
Buildings	-
Computer hardware and software	97
Furniture and fixtures	372
Leasehold improvements	5,039
Others	95
Total	**5,602**

Source: The Company Management

The Company has various lease contracts for offices, stores, staff housing units, vehicles and warehouses. Operating lease expenses amounted to SAR 53.5 million during 2014G. The following table shows the future rents undertakings under the operating lease contracts as at December 2014G:

Table 6.38: Operating lease liabilities as at December 2014G

Currency: SAR '000	Total liabilities
Period ended 31 December 2015G	42,419
Period ended 31 December 2016G	62,709
Period ended 31 December 2017G	61,961
Period ends 31 December 2018G	58,226
Thereafter (2019G–2033G)	290,010
Total	**515,325**

Source: The Company Management

6.7.15 Balance sheet key performance indicators

Table 6.39: Balance sheet key performance indicators

KPIs	2011G Audited	2012G Audited	2013G Audited	2014G Audited
ROA	12.3%	15.6%	16.5%	13.9%
Return on shareholders' equity	32.7%	35.6%	38.3%	29.1%
Current assets/current liabilities	1.7	1.8	1.7	1.7
Total liabilities/total assets	62.4%	56.3%	56.9%	52.3%
Total liabilities and total equity	**165.8%**	**128.9%**	**132.2%**	**109.5%**

Source: The Company Management

Return on assets increased from 12.3% in 2011G to 16.5% in 2013G due to net income growth at a CAGR of 36.4% driven by the increased revenues as a result of the increase in total retail space. This was achieved through the expansion of certain stores and the opening of new stores. Despite the increase in net income, return on assets decreased in 2014G to reach 13.9%. This is mainly due to the increase in inventory by SAR 113.2 million compared to 2013G to reach SAR 530.4 million in preparation for the opening of new stores and to meet the anticipated increase in sales. Furthermore, the balance of non-current assets increased by SAR 46.9 million as a result of the purchase of a land for the construction of the Company's new head office along with the additions associated with the opening of the SACO Al Sawari store in Jeddah and the re-opening of the SACO Takhassusi store in a larger space.

Return on shareholders' equity increased from 32.7% in 2011G to 38.3% in 2013G due to the higher net income resulting from the growth in the Company's sales. The return on shareholders' equity decreased to 29.1% in 2014G due to the fact that no dividends were distributed in 2014G.

The current assets to the current liabilities ratio increased slightly from 1.7 in 2011G to 1.8 in 2012G due to increased inventory and decreased balance of short-term borrowings and creditor banks. The ratio decreased again to 1.7 in 2013G. Despite the rise in inventory, the current assets to current liabilities ratio remained at 1.7 in 2014G, which was offset by the increased level of accounts payable, short- and medium-term borrowings and creditor banks.

The total liabilities to total assets ratio decreased from 62.4% in 2011G to 52.3% in 2014G due to the growth in assets, which is primarily related to the Company's expansion by opening new stores.

The total liabilities to total equity ratio significantly decreased from 165.8% in 2011G to 109.5% in 2014G due to the improved profitability of the Company from SAR 55.2 million in 2011G to SAR 110.0 million in 2014G and undistributed dividends in 2014G, resulting in an 224.2% increase in total equity between 2011G and 2014G. This was offset by the growth in total liabilities by 148.0% between 2011G and 2014G. The increase in total liabilities is driven by increased accounts payable, short- and medium-term borrowings and credit banks in order to finance purchases and implement expansion plans, such as opening new branches and building a new head office for the Company.

6.8 Cash flows

The following table shows the cash flow statement as at 31 December 2011G, 2012G, 2013G and 2014G:

Table 6.40: Cash flow statement

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited
Net income for year	**55,193**	**76,815**	**102,742**	**110,014**
Adjustments for non-cash items				
Depreciation and amortization	14,079	16,737	18,761	24,383
Inventory written off / (back)	4,855	8,206	(2,330)	9,434
Provision for slow moving items and inventory shortages	4,635	2,200	4,250	4,833
Provision for employee end-of-service benefits	3,378	4,444	5,954	6,393
Provision for doubtful debts	278	1,100	245	219
Adjustments to the value of supplier patronage shares	186	-	-	-
Loss/(gain) on sale of property and equipment	46	(185)	-	276
Write-offs of pre-operating expenses	7	-	452	-
Bad debt written off	-	-	-	72
	27,463	**32,502**	**27,332**	**45,610**
Changes in working capital				
Accounts receivable	(1,293)	1,000	(2,631)	(376)
Inventory	(69,846)	(52,375)	(102,622)	(128,916)
Prepayments and other receivables	705	(1,305)	(14,322)	(9,620)
Accounts payable	31,002	13,219	23,420	32,976
Accrued and other current liabilities	4,509	2,076	20,787	173
Accrued zakat	1,482	1,604	(735)	2,906

Currency: SAR '000	2011G Audited	2012G Audited	2013G Audited	2014G Audited
Employee end-of-service benefits paid	(654)	(2,419)	(2,388)	(2,925)
	(34,095)	**(38,200)**	**(78,491)**	**(105,782)**
Net cash generated from operating activities	**48,561**	**71,117**	**51,583**	**49,842**
Investment Activities				
Purchase of property and equipment	(38,570)	(22,410)	(30,569)	(75,492)
Additions to pre-operating expenses	(4,028)	(357)	-	(3,551)
Payment of claim certificates related to cooperative membership agreement with an overseas supplier	77	-	-	-
Proceeds from sales of assets	72	979	130	227
Net cash used in investing activities	**(42,449)**	**(21,787)**	**(30,439)**	**(78,816)**
Financing activities				
Changes in short-term borrowings	11,152	(8,257)	37,291	32,555
Proceeds from medium-term borrowings	13,188	2,118	46,418	19,617
Repayments of medium-term borrowings	(7,152)	(14,875)	(15,213)	(31,969)
Repayment of advances from shareholders	-	-	(38,733)	-
Dividends	(15,600)	(30,000)	(50,000)	-
Net cash generated from/(utilized in) financing activities	**1,588**	**(51,014)**	**(20,237)**	**20,203**
Net change in cash and cash equivalents	**7,700**	**(1,684)**	**907**	**(8,770)**
Cash and cash equivalents at beginning of the year	7,032	14,732	13,048	13,955
Cash and cash equivalents at end of the year	**14,732**	**13,048**	**13,955**	**5,185**

Source: Audited financial statements and the Company Management

6.8.1 Cash flows from operating activities

Cash flows from operating activities in 2011G was SAR 48.6 million as a result of the net income achieved by the Company of SAR 55.2 million despite the deficit resulting from the changes in working capital items, which amounted to SAR 34.1 million, driven by the increase in the Company's inventory as a result of the expansion of branches and opening of new branches.

In 2012G, the cash flows resulting from the operating activities increased to SAR 71.1 million, as a result of the increase in net income, which grew by 39.2% between 2011G and 2012G.

The deficit resulting from the changes in working capital items in 2012G increased to SAR 38.2 million due to the increase in inventory and prepayments and other receivables.

The cash flows from the operating activities decreased in 2013G to SAR 51.6 million, for a SAR 19.5 million decrease compared to 2012G, due to the high deficit in working capital of SAR 78.5 million as a result of the significant increase in the balance of inventory and prepayments.

During 2014G, the cash resulting from the changes in working capital recorded a deficit of SAR 105.8 million, compared to a deficit of SAR 78.5 million in 2013G. This is mainly due to a significant increase in the inventory balance, offset by an increase in the accounts payable balance. The increased inventory is due to the opening of Al Sawari store in Jeddah in addition to the increased space of the SACO World Jeddah store, as well as preparation for the opening of new stores in 2015G. Despite the deficit resulting from the changes in working capital items, the cash flows generated from operating activities decreased by a small percentage of 3.4% compared to December 2013G to reach SAR 49.8 million, as a result of the increased net income by 7.1% to reach SAR 110.0 million in 2014G, compared to SAR 102.7 million in 2013G.

6.8.2 Cash flows from investing activities

Cash used in the purchase of property and equipment represented the main part of the cash flows used in investing activities.

In 2011G, improvements to leased properties accounted for 63.1% of the total additions related to the SACO World Dhahran store in the Eastern Province, which is considered the largest store and was opened in June 2011G. Moreover, additions to furniture and fixtures in 2011G are driven by the opening of the SACO World Dhahran store.

In 2012G, additions to leasehold improvements and furniture and fixtures relating to Al Qasr store in Riyadh accounted for the bulk of the cash flows related to investing activities. This store was opened in Riyadh in June 2012G. Trucks were purchased during 2012G to be used in warehouses.

Additions to computers and software accounted for 77.4% of the total additions in 2013G, as the Company purchased and put into operation a new ERP system.

During 2014G, the Company's additions reached SAR 78.8 million. These are mainly related to the preparation of the Takhassusi store in Riyadh and Al Sawari store in Jeddah as well as the purchase of a piece of land in Riyadh to build the Company's new head office and preparation of new stores in Jizan, Dir'iya and Al Aliah Plaza in Riyadh

6.8.3 Cash flows from financing activities

Cash flows from financing activities primarily consist of bank financing, dividends and interest-free borrowings granted by the shareholders.

The Company generated cash flows from financing activities in 2011G amounting to SAR 1.6 million due to bank financing, obtained in the form of short and medium-term borrowings which were offset by dividends. The bank financing has been used to open new branches.

In 2012G, the cash used in financing activities greatly increased as a result of the payment of borrowings and dividend distributions of SAR 51.0 million.

In 2013G, the Company obtained banking facilities in the form of borrowings to finance the purchase of a new ERP system and to pay the borrowings granted by shareholders. The Company distributed dividends of SAR 50.0 million in the same year.

Despite the decline of the cash flows generated from short and medium-term debts during 2014G compared to 2013G, the Company achieved cash flows of SAR 20.2 million from financing activities during 2014G, compared to a deficit of SAR 20.2 million during 2013G due to the fact that no cash dividends were distributed in 2014G. The banking facilities obtained in 2014G were to finance the purchase of a plot of land in Riyadh to building the Company's new head office as well as to fund the Company's activities by preparing the Takhassusi store in Riyadh and Al Sawari store in Jeddah as well as financing the increase in working capital items.

7. Dividend Distribution Policy

Under Article 108 of the Companies Regulations, a Shareholder is vested with all rights attached to Shares, which include in particular the right to receive a share in the dividends declared for distribution. The Board of Directors shall recommend declaring and paying any dividends before approval by the shareholders at the meeting of the General Assembly. The Company intends to make dividend payments to its Shareholders with a view to enhance the value of their investments. However, any recommendation for the distribution of dividend depends on a number of factors, including the historic and anticipated profits generated by the Company, cash flows, capital requirements, market data, economic factors in general and Zakat, as well as other legal and regulatory considerations and factors.

Although the Company intends to pay annual dividends to its Shareholders, it does not make any assurance that any dividends will actually be paid nor any assurance as to the amount, which will be paid in any given year. The distribution of dividends is subject to certain limitations contained in the Company's By-Laws. After deducting all general expenses and other costs, the Company's annual net profits, if any, shall be allocated (in Saudi Riyals) as follows:

1. Ten percent (10 %) of the net profit shall be set aside to form a statutory reserve and the Ordinary General Assembly may discontinue said deductions when the statutory reserve amounts to half of the Company's share capital.
2. The Ordinary General Assembly may, upon request of the Board of Directors, set aside a percentage of the annual net profits to form an additional reserve to be allocated towards one or more specific purposes.
3. The balance shall be distributed as a first payment in the amount of at least five percent (5%) of paid-up capital to the Shareholders.
4. Out of the remaining balance, not more than 5% shall be allocated as compensation for the Directors.
5. The resulting balance shall be distributed among Shareholders as an additional share of the profits.

The distribution of dividends is subject to the restrictions and conditions contained in the credit facilities agreements between the Company and its lenders from time to time. In this respect, the Islamic Facilities Agreement between the Company and the Saudi Investment Bank dated 31/12/2013G states that the dividends allocated for distribution/ withdrawals shall not exceed 75% out of the net profit for any given year.

The following is a summary of share dividends declared and paid up between 2011G and 2013G:

Table 7.1: Dividends Distributed in the Last Years

Amount (SAR)	2011G (SAR)	2012G (SAR)	2013G (SAR)
Dividends declared for the period	15,600,000	30,000,000	50,000,000
Dividends paid for the period	15,600,000	30,000,000	50,000,000
Net income	55,192,687	76,814,914	102,742,279
Ratio of declared dividends to net income	28.3%	39.1%	48.7%

Source: Audited financial statements

The Board of Directors confirms that there are no declared dividends that have not been mentioned in this Prospectus and that no dividends were distributed in 2014G.

8. Use of Proceeds

The total proceeds from the Offering are estimated at SAR 504,000,000 million, of which SAR 19,114,916 will be applied to settle all expenses related to the Offering, which include the fees of the Financial Advisor, Lead Manager, Legal Advisor, Financial Due Diligence Advisor, Market Consultant, Accountants, underwriting fees, Receiving Agents fees, marketing, printing and distribution fees, as well as other fees related to the Offering. It should be noted that the Company will not bear any of the expenses relating to the Offering, which will be deducted from the proceeds of the Offering, equaling 504,000,000. Selling Shareholders will pay the underwriting expenses incurred by the Company immediately upon completion of the Offering.

The Net Proceeds of approximately SAR 484,885,084 will be distributed to the Selling Shareholders in proportion to the number of shares sold by each of them. The Company will not receive any part of the proceeds from the Offering.

9. Statements by Experts and Advisors

The Financial Advisor, Legal Advisor, Auditor, Financial Due Diligence Advisor, and Industry and Market Consultant have given and not withdrawn their written consent to the publication of their names, logos and statements in the manner set forth in this Prospectus. Moreover, they do not themselves, or any of their relatives or employees have any shareholding or interest of any kind in the Company

Financial Advisor, Lead Manager and Underwriter	
HSBC	HSBC Saudi Arabia Limited One of the companies licensed by the Capital Market Authority under Number 05008037. HSBC provides financial services such as dealing both as principal and agent, underwriting, management of investment funds and customers portfolios, arranging, advising and custody.
Legal Advisor	
Legal Advisors Abdulaziz I. Al-Ajlan & Partners in association with Baker & McKenzie Limited	Legal Advisors - Abdulaziz Ibrahim Al Ajlan & Partners in association with Baker & McKenzie Limited One of the law firms licensed under Commercial Registration Number 1010425995 to provide legal services and legal and regulatory consulting in Saudi Arabia.
Professional Financial Diligence Advisor	
Ernst & Young	Ernst & Young One of the advisory firms licensed in Saudi Arabia, which provides professional consulting services, prepares scientific reports, designs and implements field surveys, and conducts feasibility studies for investors.
Auditors	
pwc	PricewaterhouseCoopers (PWC) One of the legal accounting and auditing firms licensed by the Saudi Organization for Certified Public Accountants in Saudi Arabia under number 25. The firm provides accounting, auditing, consulting services, and conducts financial, accounting and management studies.
Industry and Market Consultant	
Euromonitor International	Euromonitor International Limited A consulting firm founded in 1972G, which provides services in the field of market research, prepares reports on business information and data and the sector in which the company operates.

10. Declarations

The Board of Directors, the CEO, the Senior Management, and the Secretary of the Board declare that:

- Except for any qualification shares, and as disclosed in section 5.1 "Board of Directors", section 5.3 "Senior Management" and section 11.10 "Transactions with Related Parties", they do not themselves, nor do any of their relatives, have any direct or indirect interests in the shares of the Company.
- Except as disclosed in section 11.10 of this Prospectus "Transactions with Related Parties", there are no current or contemplated contracts or arrangements in which they or any of their relatives or subordinates have an interest in the Companys activities.
- Except as disclosed in sections 4.3 "Overview of Major Shareholders", section 11.10 "Transactions with Related Parties" and the qualification shares referred to in section 5.2.2 "Board of Directors" of this Prospectus, neither they nor any of their relatives or subordinates, have interests or shares of any kind in the Company as of the date of this Prospectus.
- The Company possesses the necessary regulations and policies needed to prepare the interim and annual financial statements in conformity with the Generally Accepted Accounting Principles issued by the Saudi Organization for Certified Public Accountants ("SOCPA"), and within the deadlines set in the Listing Rules. Further, the Company possesses the necessary regulations and policies to prepare all the other financial and non-financial reports as required by the Listing Rules and within the timeframes set out in these rules.
- The Company has sufficient working capital for 12 months following the date of the publication of this Prospectus.
- The Company has not issued any debt instruments, or declared the issuance of such instruments.
- There is no intention to materially change the nature of the Company' activities.
- There has been no interruption in the business of the Company, which may have or have had a significant impact on the financial position in the last 12 months prior to the date of the Prospectus.
- No commissions, discounts, brokerages or other non-cash compensations were granted by the Company within the three years immediately preceding the application for listing in connection with the issue or sale of any securities.
- There has been no material adverse change in the financial or trading position of the Company during the three years preceding the year of listing, in addition to the period since the end of the period covered by the accountant's report and until the date of the Prospectus.
- The Company's internal control measures were soundly prepared to establish a written policy that regulates present or potential conflicts of interest, including the misuse of assets and misconduct resulting from transactions with related parties; in addition to safeguarding the security of financial and operational systems, and ensuring the implementation of appropriate supervisory measures to manage risks in accordance with Article 10 of the Corporate Governance Regulations. Furthermore, the Board members shall conduct annual reviews of the Company's internal control measures.
- The financial information included in this Prospectus and the consolidated financial statements for the financial years ended 2011G, 2012G, 2013G and 2014G, and the notes associatetd thereto by the Auditor have been prepared and audited in accordance with Accounting Standards issued by Saudi Organization of Certified Public Accountants ("SOCPA") which allows the use of international auditing standards in the absence of Saudi auditing standards.
- Neither the Directors nor Senior Management may vote on a contract or proposal in which they have a material interest.
- There are no outstanding objections or disputes with the Department of Zakat and Income Tax.
- There is no pledge, mortgage or financial burden on any of the Company's assets.
- The Company does not have an existing employee stock plan prior to the listing application and approval, nor any other arrangements that give employees a stake in the Company's capital.
- The Directors and Senior Management may not have any direct or indirect interest in the transactions and contracts of the Company except with the permission of the Ordinary General Assembly. The Board members inform the Board of any personal interests, direct or indirect, in any of the Company's activities or contracts. Such declarations shall be recorded in the minutes of meeting and the relevant member shall not vote on the decision relating to such matters.
- The Company does not conduct any of its activities outside Saudi Arabia.
- The Company has not adopted any research and development policies.

- The share capital of the Company does not include options.
- They have not at any time, declared bankruptcy or been subject to bankruptcy proceedings.
- No company - in which they held an administrative or supervisory office - was declared insolvent in the past five years preceding the date of this Prospectus.
- No power exists giving any of the Directors the right to vote on any contract or proposal in which they have a fundamental interest.
- No powers exist giving any of the Directors the right to borrow money from the Company.

The Board of Directors further declare complying with the provisions of Article (69) and (70) of the Companies Regulations and Article 18 of the Corporate Governance Regulations in respect to contracts with related parties as follows:

- All contracts with related parties shall be approved by the Board of Directors, then by the Ordinary General Assembly, provided that the relevant director shall refrain from voting thereon, whether in the Board of Directors or the Ordinary General Assembly.
- The Shareholders and Board of Directors affirm that they shall not compete with the Company's business and shall deal with related parties on an arms' length basis.
- Under the Company's By-laws, neither the Directors nor the CEO may vote on a contract or proposal in which they have a material interest or on decisions relating to their own remuneration. Neither the Directors nor Senior Management may borrow from the Company.

In addition to the declarations described above, the Directors and the CEO declare that:

- No powers exist granting a Director or CEO the right to vote on the remuneration granted to them.
- The Board of Directors also declare that:
- The Company's IT systems and supply and support systems, including the SAP enterprise resource planning system (ERP) adopted in November 2013G, operate properly and meet the needs of the Company.
- Inventory management systems, set-aside provisions and policies calculating provisions for decreasing inventory and slow moving inventories are sufficient and appropriate to the nature of the Company's operations.
- The Market Report prepared by Euromonitor adequately covers the retail market in which SACO operates, and according to their knowledge, there is no material deficiency in such data and information that may affect the decision by investors to subscribe for Company Shares.
- There has been no material change in the Company's marketing policy during the period between 2011G and 2014G.
- The members of the Board of Directors declare the integrity and efficiency of the internal control systems, accounting procedures and IT systems.
- The members of the Board of Director declares that all terms and conditions that could affect the decision of investors to subscribe for Company shares have been disclosed.
- The members of the Board of Directors declare that the Company currently has no intention to sign any new contracts with any related parties, except for the renewal of contracts with the related parties that have been previously concluded and referred to in this Prospectus. In the case that the Company wishes to sign new contracts with related parties in the future, the Company shall adhere to Articles (69) and (70) of the Companies Regulations and Article 18 of the Corporate Governance Regulations.
- The members of the Board of Directors declare that the shareholders whose names appear on page (xvii) of this Prospectus are the legal and beneficial owners of the Company.
- The Board of Directors declares that all increases in the capital of the Company are consistent with the laws and regulations applicable in Saudi Arabia.

11. Legal Information

11.1 The Company

Saudi Company for Hardware (SACO) is a Saudi joint stock company pursuant to H.E the Minister of Commerce and Industry Resolution No. 178/Q dated 26/05/1432H (corresponding to 30/04/2011G) and Commercial Registration No. 1010056595 dated 26/02/1405H (corresponding to 19/11/1984G) with its registered address at Al Takhassusi Road in Riyadh, and its head office at Hind bint Utbah Street off Olayah Street in Riyadh. SACO was incorporated originally as a limited liability company with a share capital of ten million Saudi riyals (SAR 10,000,000). The founding partners were Al Hamidi Trading Establishment (50%), Abdullah Taha Bakhsh (25%) and Abdul Rahman Hassan Abbas Sharbatly (25%).

On 12/06/1411H (corresponding to 30/12/1990G), the Company's share capital was increased from ten million Saudi riyals (SAR 10,000,000) to sixteen million Saudi riyals (SAR 16,000,000) divided into sixteen thousand (16,000) shares with a nominal value of one thousand Saudi riyals (SAR 1,000) per share, by a capitalization of loans provided by the partners to the Company. On 15/08/1418H (corresponding to 15/12/1997G), Al Hamidi Trading Establishment transferred all of its shares in the Company to Al Hamidi Contracting Establishment Company.

In 2007G, after the death of Abdullah Taha Bakhsh and transfer of his shares to his heirs, all heirs transferred their entire shares in the Company to Abrar International Holding Company (owned by the same heirs).

In 2008G, the partners in SACO agreed to lend the company forty-three million three hundred and thirty-three thousand and three hundred and thirty-four Saudi Riyals (SAR 43,333,334) to finance the Company's businesses and its expansion in the retail market. In order to finance its portion of the loan, Al Hamidi Contracting Establishment Company sold 12.5% of the Company's shares, half of them to Abrar International Holding Company and the other half to Abdul Rahman Hassan Abbas Sharbatly. Al Hamidi Contracting Establishment Company's interest became 37.5% of the Company's share capital, and the interest of each of Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly became 31.25% of the Company's share capital. In 2008G, the partners in SACO agreed to grant Al Hamidi Contracting Establishment Company a portion of the Company's share capital calculated on the basis of the realized net profit for the fiscal year ending 31/12/2009G. Such portion was to be granted provided that the realized net profit was not less than SAR 20.19 million. On 10/03/1431H (corresponding to 24/02/2010G), after the Company achieved these goals, the portion of the share capital was set at 2.5% of the Company's share capital representing a total of four hundred (400) shares. Each of Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly agreed to grant Al Hamidi Contracting Establishment Company two hundred (200) shares representing 1.25% of the Company's share capital.

Pursuant to the partners' resolution dated 23/03/1432H (corresponding to 24/02/2011G), the partners decided to convert the Company from a limited liability company into a closed joint stock company. Two hundred and forty (240) shares owned by Al Hamidi Contracting Establishment Company were transferred to Khalid Mohammed Abdulaziz Al Hamidi, Sameer Mohammed Abdulaziz Al Hamidi and Haytham Mohammed Abdulaziz Al Hamidi, with each one receiving eighty (80) shares representing 0.5% of the Company's share capital. Al Hamidi Contracting Establishment Company's total shares thus became 38.5% of the Company's share capital, with Abrar International Holding Company and Abdul Rahman Hassan Abbas Sharbatly each holding 30%.

The Company was converted into a closed joint stock company pursuant to HE Minister of Commerce and Industry Resolution No. 178/Q dated 26/05/1432H (corresponding to 30/04/2011G). The Company's share capital was sixteen million Saudi riyals (SAR 16,000,000) and the interests were converted into shares with a nominal value of ten Saudi riyals (SAR 10) per share.

On 15/06/1432H (corresponding to 18/05/2011G), the Company's shareholders entered into an agreement with Al Hamidi Contracting Establishment Company establishing the shareholders acceptance of Al Hamidi Contracting Establishment Company receiving 15% of the Company's net profit in consideration for managing the Company, noting that Al Hamidi Trading Establishment, which was succeeded by Al Hamidi Contracting Establishment Company, had received such consideration since 29/09/1986G. However, this agreement was terminated by a termination and settlement agreement dated 21/03/1435H (corresponding to 22/01/2014G), pursuant to which it was agreed that Al Hamidi Contracting Establishment Company would receive 9% of the Company's shares. Seventy-two thousand (72,000) shares (representing 4.5% of the total share capital) from Abdul Rahman Hassan Abbas Sharbatly and Abrar International Holding Company's equity stakes were transferred to Al Hamidi Contracting Establishment Company on 14/05/1435H (corresponding to 16/03/2014G).

On 27/07/1435H (corresponding to 26/05/2014G), the Company's share capital was increased from sixteen million Saudi riyals (SAR 16,000,000) to two hundred forty million Saudi riyals (SAR 240,000,000) divided into twenty-four million (24,000,000) shares with a nominal value of ten Saudi riyals (SAR 10) per share, through capitalization of two hundred twenty-four million Saudi riyals (SAR 224,000,000) from the retained earnings account.

SACO mainly operates in the housewares, office supplies, hand tools and building supplies retail and wholesale sector. The Company has registered its branches with the Ministry of Commerce and Industry in the Kingdom.

As at 31 December 2014G, the Company had 2,035 employees, 694 of whom were Saudis, representing 34.1% of the Company's labor force.

11.2 Shareholders' Structure

The current share capital of the Company is two hundred and forty million Saudi Riyals (SAR 240,000,000) divided into twenty four million (24,000,000) ordinary shares with a nominal value of ten Saudi Riyals (SAR 10) per share.

The following table shows the Company's shareholding structure and share capital:

Table 11.1: Selling Shareholders of the Company

Selling Shareholders	Pre-Offering			Post-Offering		
	No. of Shares*	%	Share Capital (SAR)	No. of Shares*	%	Share Capital (SAR)
Al Hamidi Contracting Establishment Company	11,400,000	47.5%	114,000,000	7,980,000	33.25%	79,800,000
Abrar International Holding Company	6,120,000	25.5%	61,200,000	4,284,000	17.85%	42,840,000
Abdul Rahman Hassan Abbas Sharbatly	6,120,000	25.5%	61,200,000	4,284,000	17.85%	42,840,000
Khalid Mohammed Abdulaziz Al Hamidi	120,000	0.5%	1,200,000	84,000	0.35%	840,000
Sameer Mohammed Abdulaziz Al Hamidi	120,000	0.5%	1,200,000	84,000	0.35%	840.000
Haytham Mohammed Abdulaziz Al Hamidi	120,000	0.5%	1,200,000	84,000	0.35%	840,000
Public	-	-	-	7,200,000	30%	72,000,000
Total	**24,000,000**	**100%**	**240,000,000**	**24,000,000**	**100%**	**240,000,000**

Source: Company

*These shares include qualification Shares listed in Table A-1 "Board of Directors".

11.3 Government Approvals and Licenses

The Board of Directors confirms that the Company holds all necessary commercial and operational licenses and approvals required by the competent authorities for conducting its business, except as stated below.

Below is a list of licenses issued for the Company:

Commercial Registration certificates

SACO and its branches obtained Commercial Registration certificates from the Ministry of Commerce and Industry in order to carry out their business activities. Such certificates shall be renewed periodically. A new commercial registration certificate has been issued showing the increase in the Company's share capital (which became two hundred and forty million Saudi Riyals (SAR 240,000,000) and the names of members of Board of Directors who have been appointed on 20/07/2014G. The Commercial Registration certificates of the Company's branches have been amended in order to reflect the last increase in the share capital.

Municipal licenses

The Company was granted municipal licenses for the stores, warehouses and maintenance centers that it operates. According to such licenses, the Company can carry out the business activity in the region or city from which the licenses are issued. Two municipal licenses, one for a SACO World store (Al Muhammadiyah District, Jeddah) and the other for the Jubail store (Al Fanateer District, Al Wajh Road) have expired on 12/08/1434H and 19/03/1435H respectively, and the Company is in the process of renewing them.

Zakat Certificate

On 06/06/1435H, the Company was granted a Zakat certificate issued by the Department of Zakat and Income Tax ("DZIT") for the period ended 31/12/2013G, in order to enable it to finalize all pending transactions. Pursuant to that certificate, the Company can pay its final accruals on contracts. This certificate is valid until 30/04/2015G. The Company's last final Zakat withholding was for the financial period ended 31/12/2007G. The Company has not, since that date, received any final Zakat assessments for the financial years ended 31 December 2008G to 31 December 2014G. The Company calculated its Zakat withholding for the years 2008G-2014G and paid the Zakat amount accordingly. The Company has obtained Zakat certificates granting it the right to finalize transactions.

11.4 Summary of the Company By-Laws

11.4.1 Company's Name

Saudi Company for Tools and Hardware (SACO) (a Saudi joint stock company)

11.4.2 Company Objects

The activities of the Company are:

Wholesale and retail trade in Housekeeping, office and sport supplies, plumbing, craft and electrical tools, lubricating oils, cleaning and polishing materials, protection of vehicles and furniture parts, plants and chemicals for industrial works, water and sewage purification, building tools, agriculture supplies, finishing and restoration works and building decoration.

11.4.3 Participation and Merger

- Pursuant to the Companies Regulations, the Company may have an interest, or otherwise participate in any manner with other entities or companies that carry out similar activities or that may assist the Company in the realization of its objects. The Company may also hold stocks and shares in such companies or may merge with or acquire these companies.
- The Company may also have an interest or may participate in any manner with other companies provided that such participation shall not exceed twenty percent (20%) of the Company's free reserves and ten percent (10%) of the capital of the company in which it shall participate, provided that the total amount of such participations shall not exceed the value of those reserves, and that the Ordinary General Assembly shall be so notified at its first meeting.

11.4.4 Head Office

The head office of the Company is located in Riyadh, the Kingdom Saudi Arabia. The Board of Directors may open branches, agencies or offices inside or outside the Kingdom of Saudi Arabia upon the approval of its members. The headquarters of the Company can only be transferred to another city by a decision of the Extraordinary General Assembly and at the suggestion of the Board of Directors and the approval of the competent authorities.

11.4.5 Duration of the Company

The duration of the Company shall be (99) ninety-nine Gregorian years commencing on the date of issuance of the Minister of Commerce's resolution announcing the conversion of the Company. The Company's duration may always be extended by a resolution of the Extraordinary General Assembly taken at least one year prior to the expiration of that term.

11.4.6 Company's Share Capital

The share capital of the Company is two hundred and forty million Saudi Riyals (SAR 240,000,000) divided into twenty four million (24,000,000) ordinary shares with a nominal value of ten Saudi Riyals (SAR 10) per share.

11.4.7 Capital Subscription and Payment

The Shareholders have subscribed for all of the Company's Capital Shares and paid up their value in full.

The Shareholders acknowledge that shares are distributed among them and endorse their joint liability within their own monies towards any third party in relation to the evaluation of the company's assets.

11.4.8 Share Certificates

The Company shall issue share certificates with serial numbers. The share certificates shall be signed by the Chairman of the Board of Directors, or by a member of the Board of Directors authorized on the Chairman's behalf, and stamped with the Company's stamp. The share certificate shall, in particular, show the number and date of the ministerial resolution authorizing the conversion of the Company to a joint-stock company, the number and date of the ministerial resolution announcing the conversion of the Company, value of the capital, number of distributed Shares, nominal value of Shares, paid amount thereof, Company's activities in brief, head office and term. The Shares may have coupons with serial numbers, and each coupon shall bear the number of the Share to which it is attached.

11.4.9 Default

If a Shareholder fails to pay the value of a Share when it falls due, the Board may, after giving such Shareholder notice by registered mail sent to his address specified in the Shareholders' register, sell such Shares in a public auction. Nevertheless, a defaulting Shareholder may, up to the date fixed for the public auction, pay the outstanding value of the Share plus all expenses incurred by the Company. The Company shall recover from the proceeds of the sale such amounts as are due to it and shall refund the balance to the Shareholder. If the proceeds of the sale fall short of the amounts due, the Company shall have a claim on all funds of the Shareholder for the unpaid balance. The Company shall cancel the Share that was sold and issue the purchaser a new share certificate bearing the serial number of the cancelled Share, and make a notation to that effect in the Shareholders' register.

11.4.10 Company shares

The shares shall be nominal shares and may not be issued at less than their nominal value. However, the shares may be issued at a value higher than their nominal value, in which case the difference in value shall be added to the statutory reserve, even if the reserve has reached its maximum limit. A Share shall be indivisible vis-à-vis the Company. In the event that a Share is owned by several persons, they shall select one person from amongst them to exercise, on their behalf, the rights pertaining to the Share, and they shall be jointly responsible for the obligations arising from the ownership of the Share.

11.4.11 Shares trading

All Shares shall be tradable in accordance with the rules, regulations and directives issued by the CMA and after issuance of the appropriate certificates. As an exception to the foregoing, in-kind shares subscribed by shareholders may not be traded prior to the publication of the financial statements for two complete fiscal years, each of not less than 12 months, from the date of announcing the conversion of the Company. Such provisions shall apply to any shares subscribed for by the Shareholders in case the capital is increased before the lapse of the lock-up period. The certificates shall contain information regarding the nature of the Shares, the date on which the Company was converted into a joint stock company and the duration of the lock-up period. If the capital is increased through an initial public offering, the lock-up shall not apply to shares subscribed by in this way. However, cash shares may be transferred during the lock-up period in compliance with the rights selling provisions from one founder to another, to any Board member to serve as qualification shares, or from the heirs of any founders to any third party in case of death.

11.4.12 Trading Method

The nominal Shares shall be transferred by registration in the Shareholders register, which shall contain the names of the Shareholders, their nationalities, their occupations, their domicile and address, the serial numbers of the Shares and the paid-up value of such Shares. Such registration shall be indicated in the Shares certificate. The transfer of Share shall not be effective vis-à-vis the Company or any third party except from the date of such recording in the said register or the completion of the transfer procedures using the automated system of shares information (Tadawul). The subscription or ownership of the Shares by a Shareholder shall mean the acceptance by the Shareholder of the By-Laws and his submission to the resolutions duly passed by the General Assemblies in accordance with the By-Laws, whether the Shareholder was present or absent and whether the Shareholder agreed to such resolutions or objected to them.

11.4.13 Increase of Share Capital

The Extraordinary General Meeting may, based on the economic feasibility of a capital increase and after receiving the approval of the competent authorities, resolve to increase the Company's capital once or more by issuing new shares with the same nominal value as the original shares, provided that the original capital have been paid up in full with due consideration to the requirements of the Companies Regulations. Such resolution shall specify the manner in which the capital shall be increased.

11.4.14 Decrease of Share Capital

The Extraordinary General Assembly may, for valid reasons and after obtaining the approval of the Ministry of Commerce and Industry and competent authorities, resolve to reduce the Company's capital if it proves to be in excess of its needs or if the Company has incurred losses. Such resolution shall not be adopted except after considering the auditor's report on the reasons for such reduction, with due consideration to the provisions of the Companies Regulations. Such resolution shall specify the manner in which the capital shall be decreased. If the reduction of the capital is due to its being in excess of the Company's needs, then the Company's creditors must be invited to express their objection thereto within sixty (60) days from the date of publication of the reduction resolution in a daily newspaper published in the city where the Company's head office is located. Should any creditor object and present to the Company evidentiary documents within the time limit set above, then the Company shall pay such debt, if already due, or present an adequate guarantee of payment if the debt is due on a later date.

11.4.15 Preferred Shares

The Company may, after the approval of the Minister of Commerce and Industry in accordance with the principles he prescribes, issue preference shares which carry no voting rights, provided that these do not exceed fifty percent (50%) of its capital. The said shares shall authorise its shareholders, as well as the right to participate in the net profits that are distributed to ordinary shares, as follows:

- The right to a specified percentage of net profit after deducting statutory reserves, not less than five percent (5%) of the share value. This shall be before any apportionment of the Company's net profits.
- Preference in recovery of the value of their shares upon liquidation of the Company, and in receiving a certain percentage of the liquidation proceeds.

The Company may purchase these shares in accordance with General Assembly resolutions, but such shares shall not be considered with respect to the quorum required to hold a General Assembly as stipulated in Articles 36 and 37 of the Company By-laws.

11.4.16 Bonds

The Company may, in relation to loans it holds, issue any kind of debt of equal value, indivisible and negotiable, such as bonds and Sukuk inside or outside Saudi Arabia in accordance with the Companies Regulations, and applicable laws and regulations.

11.4.17 Composition of the Board of Directors

The Company shall be managed by a Board of Directors consisting of nine (9) members to be appointed by the Ordinary General Assembly for a term not exceeding three (3) years. As an exception to the above, the Shareholders have appointed the Company's first Board of Directors for a term of five (5) years commencing as of the date of the Ministerial Resolution announcing the conversion of the Company.

11.4.18 Qualification Shares

Each member of the Board of Directors shall hold shares with a nominal value of no less than ten thousand Saudi Riyals (SAR 10,000). Such shares shall be deposited in a bank designated by the Minister of Commerce and Industry within thirty (30) days from the date of the appointment of the director. Such shares shall be kept aside to guarantee the liability of the Board members and shall remain non-negotiable until the expiry of the period specified for hearing a liability action provided for under Article 76 of the Companies Law or until a judgment is passed on said action.

Each Shareholder in the Company with a legal personality shall provide the qualification shares for the director representing it or his replacement. Should a member of the Board of Directors fail to submit such qualification shares within the period specified therefore, his membership in the Board shall be deemed null and void

11.4.19 Termination of the Board of Directors Membership

The membership of the Board of the Directors shall be terminated upon the expiry of the Board's term, on the Director's resignation or death or if he is convicted of a crime involving moral turpitude, or declared bankrupt, insolvent or requests a settlement with his creditors or become invalid for the membership of the Board in accordance with any applicable laws or regulations in Saudi Arabia, or if he was removed by a decision from the Ordinary General Assembly at a majority or 51% of the shares represented at the meeting. Membership of the Board shall be terminated if it is proven that the Board member has been in breach of his duties, provided that the prior approval of the Ordinary General Assembly is obtained. If the position of a director becomes vacant, the Board may appoint a temporary director to fill the vacancy, provided that such appointment shall be laid before the first Ordinary General Assembly. The term of office of the new member designated to fill a vacancy shall only extend to the term of office of his predecessor. If the number of Directors falls below the minimum quorum prescribed, the Ordinary General Assembly must convene as soon as possible to appoint the required number of Board members.

11.4.20 Powers of the Board's Members

Without prejudice to the powers conferred on the General Assembly, the Board shall be vested with full powers to manage the business of the Company, define its policies, decide on its investments, and dispose of its affairs inside and outside the Kingdom. This may include without limitation the representation of the Company in its relations with third parties, government agencies, private entities, and also before the Ministry of Commerce and Industry, the CMA, Shariah courts of all types and levels, other judicial authorities, the Board of Grievances, administrative courts, notaries public, as well as the Labor Offices, the Preliminary and Supreme Commissions for the Settlement of Labor disputes, arbitration commissions, other judicial committees, Civil Rights, Police Stations, Chamber of Commerce and Industry, in addition to all other commissions, companies, establishments, and firms of different types and at their various levels. This may also include, without limitation, entering into tenders; receiving and paying, making, acknowledging, and demanding, commencing or defending litigation, participating in hearings and responding, accepting reconciliation, accepting or rejecting judgments, requesting arbitration; asking for, rejecting, and appealing rulings; and receiving the outcome of implementation. Moreover, the Board may have the right to sign all types of contracts, deeds, and documents before the notary public and other competent authorities, including for example the Articles of Association of the companies in which the Company holds shares along with all amendments, appendices, and amendment decrees thereof, signing on agreements, deeds, loan agreements, guarantees and warranties, and the issuance of valid power of attorney on behalf of the Company, this may include, but not limited to, buying, selling, division and the acceptance thereof, receipt, hand-over, leasing, renting, cashing, paying, opening accounts and credits, drawing down and depositing at banks, issuing security to banks, and signing of all papers, bonds to order, checks, and all banking transactions. The Board may hire and fire employees; request visas; recruit manpower from abroad; sign employment contracts; determine employees' salaries; request issuance of residence authorization cards (Iqamas); transfer and waive sponsorships. The Board may within its jurisdiction give a proxy to one or more of its members or a third party to conduct a specific task or to carry out certain activities. With respect to the sale of real estate of the Company, minutes of the meeting of the Board of Directors and the reasons given for the decision shall observe the following: (1) the Board shall determine, in the decision of sale, the reasons and justifications of this decision, (2) the sale shall be roughly comparable to the equivalent price, (3) the sale is not deferred except in certain cases determined by the Board and with sufficient guarantees, (4) Such action shall not force the Company to discontinue some of its activities, or incur other liabilities.

The Board of Directors shall also have the right to conclude and obtain loans with government funds, financial institutions, banks, and commercial banks regardless of the tenure thereof, as long as its tenure does not exceed the term of the company. The Board may enter into commercial loan agreements whose terms do not exceed the term of the Company. Any commercial loan agreement whose term exceeds three years is subject to the following conditions:

- The Board resolution approving the loan agreement must specify the methods of utilization and repayment.
- The Board of Directors has to take into consideration that the loan's conditions and guarantees do not to harm the Company, its Shareholders, or the creditors' general guarantees.

The Board of Directors shall also have the right to discharge the Company debtors from their obligations provided that the minutes of the meeting of the Board of Directors and the reasons given for the decision shall observe the following:

- Discharge shall be after the lapse of at least one (1) year from the establishment of the debt;
- Discharge shall be for a maximum specified amount for each year for each debtor; and
- Discharge shall be a right to be wielded only by the Board of Directors and shall not be delegated to any person.

The Board may invest the company's funds in the Stock Exchange, including, without limitation, opening investment portfolios with financial companies, buying and selling stocks and managing financial and investment portfolios for the benefit of the Company, including the right to sign and manage all contracts and documents related to the investment portfolios or accounts, and trading securities via the Internet, receiving PIN and participating in investment funds, including the right to participation, redemption, conversion, and investment in other securities such as instruments, private companies, partnerships, offering, and others which fall under the securities as determined by the Board.

11.4.21 Remuneration of Board Members

Remuneration consists of the ratio set forth in paragraph (d) of Article (46) of this Bylaws and shall be determined within the limits of the provisions of the Companies Law and the laws or regulations complementary thereto. Directors may in addition be paid an attendance and transportation allowance for every day of meeting, if their permanent place of residence is outside the city where the Board holds its meetings. The report of the Board to the Ordinary General Assembly shall include a comprehensive statement of the salaries, share of profits, attendance allowances, expenses and the other benefits received by the Board's members in the fiscal year, as well as a statement of all amounts received by the Board's members in their capacity as employees or administrators, or for doing any technical, administrative or consultative works previously approved by the General Assembly of the Company.

11.4.22 Chairman of the Board and Managing Director

The Board shall appoint from among its members a Chairman and Managing Director. The Chairman shall have the power to call and chair the meetings of the Board.

The Chairman and Managing Director (if any) shall represent jointly and individually, the Company in its relations with third parties, Government agencies, private entities, and also before the judicial authorities, Preliminary and Supreme Commissions for the settlement of labor disputes, Commercial Paper Committees, all other judicial committees, arbitration commissions, the Directorate of Civil Rights, Police Stations, Chambers of Commerce and Industry, private entities, companies, establishments, and firms of different types. This may also include entering into tenders, receiving and paying, making, acknowledging, and demanding, commencing or defending litigation, participating in hearings and responding, accepting reconciliation, accepting or rejecting judgments. Moreover, they may have the right to sign all types of contracts, deeds, and documents before the notary public and other competent authorities, including for example the Articles of Association of the companies in which the Company holds shares along with all amendments, appendices, and amendment decrees thereof, signing on agreements, deeds, loan agreements, guarantees and warranties, follow-up transactions, collecting Company's rights and paying its obligations. This may also include, but not be limited to, buying, selling, division and the acceptance thereof, receipt, hand-over, leasing, renting, cashing, paying, opening accounts and credits, drawing down and depositing at banks, issuing security to banks, and signing documents and cheques. They may have the right to appoint, remove, contract with and determine the salaries of staff and workers, and they may appoint agents and lawyers for the Company and to authorize one or more of its members or others to carry out certain tasks.

At its discretion, the Board may determine special remuneration given to the Chairman of the Board and the Managing Director, in addition to the remuneration given to the Board of Directors pursuant to the By-laws of the Company.

The Board of Directors shall appoint a secretary, whether from among its members or otherwise, and fix his remuneration. The secretary shall record the minutes of the Board's meetings, record and keep the resolutions of these meetings in addition to exercising other powers assigned to him by the Board. The Board shall fix his remuneration.

The term of the office of the Chairman, the Managing Director, the Secretary and the director shall not exceed their respective term of service as directors and may be renewed.

11.4.23 Calling Board Meetings

The Board shall meet on a quarterly basis upon the written invitation of the Chairman, at least two (2) weeks prior to the time set for such a meeting unless otherwise stated by the Board of Directors, which shall be served personally or by email. The Chairman must convene the Board if requested to do so by two Directors or the Auditor of the Company.

11.4.24 Quorum of the Board

A meeting of the Board shall be duly convened if attended by at least (5) members of the Board, provided that the number of members attending in person shall not be less than three. In the event that a member of the Board of Directors gives a proxy to another member to attend the Board meetings on his behalf, such proxy shall be given in accordance with the following:

- A Director may not represent more than one member as to attending the same meeting.
- The proxy shall be in writing, and for a certain meeting.
- The representative may not vote on resolutions where the principal is prohibited by the Companies Regulations to do so.

Board resolutions shall be adopted by an absolute majority of the vote of the presented or represented members. The Board may adopt its resolutions by having them circulated separately to the Board members, unless a member requests a meeting for deliberations on such a resolution. Such resolutions shall be submitted to the Board in its first meeting.

Board meetings may be held by telephone or any other electronic means of communication that allow all present members to hear all other attendees. Unless otherwise notified, a member of the Board of Directors, who is participating by telephone or any other electronic means of communication shall be considered present for the duration of the meeting.

11.4.25 Board deliberations

Board deliberations and resolutions shall be drawn in minutes to be circulated to all Board members and signed by the Board Chairman and the Secretary after the signature of all present Board members on a copy of such minutes. These minutes shall be recorded in a special register to be signed by the Chairman and the Secretary. Attendance shall be also recorded in a special register to be signed by present members.

11.4.26 Conflict of Interests

Any member of the Board of Directors having a personal interest, whether direct or indirect, in any matter or proposal made to the Board must declare the nature of such interest in the proposed matter to the Board of Directors and the Company. Such declaration shall be noted in the minutes of meeting. The interested Board member shall not participate in the deliberation or voting on such resolution.

11.4.27 Board Committees

The Board of Directors may, at its discretion, form several committees as needed by the Company to carry out certain tasks determined by the Board of Directors from time to time. Unless otherwise stated in the By-laws of the Company, members of such committees may be from amongst the Board members or otherwise. The members of such committees shall only exercise such functions as assigned by the Board of Directors, from time to time, in accordance with the instructions and directives of the Board.

11.4.28 General Assembly Meetings

A duly convened General Assembly shall be deemed to represent all the Shareholders, and shall be held in the city where the Company's head office is located. Each Shareholder, regardless of the number of shares held, shall have the right to attend the conversion General Assembly, whether in person or by proxy. Any Shareholder holding twenty (20) shares has the right to attend the General Assembly, and may authorize in writing another Shareholder, other than the members of the Board of Directors or staff, to attend the General Assembly on his behalf.

11.4.29 Conversion General Assembly

The Conversion General Assembly shall have the following powers:

- Ascertain that the capital of the Company has been subscribed in full and that the minimum capital has been paid in full, as required under the Companies Regulations, and in the amount due for the value of each share;
- Approve the final text of the Company's By-Laws. However, no material change may be made to the Company's By-Laws unless agreed by all Shareholders represented therein;

- Appoint the first auditor of the Company after its conversion;
- Appoint the members of the first Board of Directors; and
- Deliberation of the shareholders report regarding the work and expenses needed for conversion.

To be validly constituted, the Conversion Assembly must be attended by Shareholders representing at least half of the Company's capital. Each Shareholder shall have a vote for every share subscribed for or represented by him at such meeting.

11.4.30 Ordinary General Assembly

Except for matters falling within the jurisdiction of the Extraordinary General Assembly, an Ordinary General Assembly shall be competent to deal with all other matters related to the Company and shall be convened at least once a year during the first 6 months following the end of the Company's fiscal year. Other Ordinary General Assembly meetings may be called when necessary.

11.4.31 Extraordinary General Assembly

An Extraordinary General Assembly of Shareholders shall be competent to amend the provisions of the By-laws of the Company, other than those provisions whose amendment is prohibited by law. Furthermore, an Extraordinary General Assembly shall be empowered to adopt resolutions in matters within the jurisdiction of the Ordinary General Assembly under the same conditions and manners as prescribed for the latter.

11.4.32 Shareholders' General Assemblies

The General Assembly shall be convened by the Board of Directors. The Board of Directors shall convene a meeting of the Ordinary General Assembly if requested to do so by the Auditor or by a number of Shareholders representing at least 5% of the Company's share capital. The invitation to the Ordinary General Assembly should be published in the Official Gazette and a local newspaper that is distributed in the city where the Company's head office is located, at least twenty five (25) days prior to the meeting date. The invitation shall include the agenda of the meeting. As long as shares are nominal, the invitation may be addressed on the time mentioned by registered letters only. A copy of the invitation and agenda shall be sent, within the period set for publication, to the Companies Department at the MoCI.

11.4.33 Record of Attendance

When a General Assembly convenes, a list shall be prepared of the names and residence addresses of the Shareholders present or represented therein, showing the number of shares held by each, whether personally or by proxy, and the number of votes allotted thereto. Any interested party shall be entitled to examine such list.

11.4.34 Quorum of the Ordinary General Assembly

A meeting of the Ordinary General Assembly shall not be valid unless attended by Shareholders representing at least 50% of the Company's share capital. If such quorum cannot be attained at the first meeting, a second meeting shall be called to be held within the next thirty days following the previous meeting and the notice shall be published in the manner prescribed in Article 34 of the By-Laws. The second meeting shall be deemed valid irrespective of the number of shares represented therein.

11.4.35 Quorum of the Extraordinary General Assembly

A meeting of the Extraordinary General Assembly shall not be valid unless attended by Shareholders representing at least 50% of the Company's share capital. If such quorum cannot be attained at the first meeting, a second meeting shall be convened in the same manner provided for in the previous article. The second meeting shall be valid if attended by a number of shareholders representing at least one quarter (1/4) of the Company's capital.

11.4.36 Voting Rights

Each Shareholder shall have a vote for every share represented by him in the Conversion General Assembly. Votes at the meetings of Ordinary and Extraordinary General Assemblies shall be computed based on one vote for each share represented at the meeting. Members of the Board shall not vote on resolutions of an Ordinary or Extraordinary General Assembly releasing the Board's members from liability during their term. The accumulative voting method shall be applied in relation to the appointment of the members of the Board of Directors.

11.4.37 Resolutions

Resolutions of the Conversion Assembly shall be adopted by the absolute majority of the shares represented at the meeting. If the resolution to be adopted relates to the evaluation of in-kind shares or special privileges, such resolution shall be adopted by the majority of subscribers to cash shares, which represents two-thirds of the shares, after excluding those shares subscribed to by cash shares owners or special privileges beneficiaries who may not vote on such resolutions, even if they already own cash shares.

Resolutions of the Ordinary General Assembly shall be adopted by an absolute majority of the Shares represented at the meeting.

Resolutions of the Extraordinary General Assembly shall be adopted by a majority vote of two-thirds of the Shares represented at the meeting. However, if the resolution to be adopted is related to increasing or reducing the capital, extending the Company's period, dissolving the Company prior to the expiry of the period specified under the Company's by-laws or merging the Company with another company or establishment, then such resolution shall be valid only if adopted by a majority of three-quarters of the Shares represented at the meeting.

11.4.38 Discussion of Agenda

Each Shareholder shall have the right to discuss the items listed in the General Assembly's agenda and to direct questions in respect thereof to the members of the Board of Directors and to the auditors. The Members of the Board of Directors or the auditors shall answer the Shareholders' questions in a manner that does not prejudice the Company's interest. If the Shareholder deems the answer to the question unsatisfactory, then he/it may refer the issue to the General Assembly and its decision in this regard shall be conclusive and binding.

11.4.39 Proceedings of the General Assembly

The General Assembly shall be presided over by the Chairman of the Board of Directors, or in his absence, anyone designated by him. The Chairman shall appoint a secretary for the meeting and a canvasser. Minutes shall be written for the meeting which shall include the names of the Shareholders present in person or represented by proxy, the number of the shares held by each, the number of votes attached to such shares, the resolutions adopted at the meeting, the number of votes assenting or dissenting to such resolutions and a comprehensive summary of the discussions that took place at the meeting. Such minutes shall be regularly recorded after each meeting in a special register to be signed by the Chairman of the Assembly, the secretary and the canvasser.

11.4.40 Appointment of Auditor

The Company shall have one or more auditors to be selected from among the auditors licensed to work in the Kingdom of Saudi Arabia. The auditor shall be appointed annually and his compensation shall be fixed by the General Assembly. The General Assembly may further reappoint the same auditor in accordance with decisions and instructions in respect thereof.

11.4.41 Access to records

The auditors shall have, at all times, access to the Company's books, records and any other documents, and may request information and clarification as they deem necessary. They may further check the Company's assets and liabilities.

The auditor shall submit to the annual General Assembly a report showing how far the Company has enabled him to obtain the information and clarifications he has requested and what violations of the Companies Law and the By-Laws he has discovered and his opinion as to whether the Company's accounts accurately reflect the facts.

11.4.42 Fiscal Year

The Company's fiscal year shall begin on 1 January and end on 31 December of each year, provided that the first fiscal year shall start on the date of the resolution issued by the MoCI announcing the conversion of the Company and ends on 31 December of the same Gregorian year.

11.4.43 Company's Balance Sheet

The Board of Directors shall prepare at the end of each fiscal year an inventory of the Company's assets and liabilities on such date, the Company's balance sheet and profit and loss account, a report on the Company's activities and its financial position for the preceding year. The report shall include the method proposed by the Board for the distribution of net profits for that financial year and shall be ready within a period not exceeding forty (40) days from the end of the annual financial period covered by those statements. The Board shall put such documents at the auditor's disposal at least fifty five (55) days prior to the time set for convening the Ordinary General Assembly. Such documents shall be signed by the Chairman of the Board of Directors and a set thereof shall be available at the Company's head office for the Shareholders' review at least twenty-five (25) days prior to the date set for convening the General Assembly. The Chairman shall publish the Company's balance sheet, profit and loss account, a comprehensive summary of the Board of Directors' report and the full text of the auditor's report in a newspaper circulated in the city where the Company's head office is located, and shall send copies of such documents to the Companies Department at the MoCI at least twenty-five (25) days prior to the date set for convening the General Assembly.

11.4.44 Distribution of Profits

After deducting all general expenses and other costs, the Company's annual net profits shall be distributed as follows:

- 10% of the annual net profits shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the Ordinary General Assembly when said reserve totals one-half of the Company's capital.
- The Ordinary General Assembly may, upon request of the Board of Directors, set aside a percentage of the annual net profits to form an additional reserve to be allocated towards one or more specific purposes.
- Out of the balance of the profits, Shareholders shall be paid an initial payment equal to 5% percent of the paid-up capital.
- A percentage of 5% of the remaining balance shall be allocated to the members of the Board of Directors as compensation.
- The balance shall be distributed among Shareholders as an additional share of the profits.

11.4.45 Place and Time of Payment of Profits

Profits resolved to be allocated to Shareholders shall be paid up at the place and time specified by the Board of Directors in accordance with the regulations issued by the Ministry of Commerce and Industry in this respect.

11.4.46 Non-Distribution of Dividends

If no dividend is paid in a financial year, dividend for the following years may be distributed only after paying the percentage referred to in Paragraph (a) of Article (16) of the By-laws to the holders of shares with no vote for this year. If the Company fails to pay this percentage of dividend for a period of three consecutive years, the Assembly of the holders of these shares held in accordance with the provisions of Article (86) of the Companies Regulations, may decide either their attending the General Assembly meetings of the Company and participating in the vote, or appointing representatives on their behalf in the Board in proportion to the value of their shares in the capital, until the Company is able to pay all preference dividends allocated to the holders of such shares in previous years.

11.4.47 Company Losses

If the Company's losses total three quarters of its capital, then the members of the Board must call an Extraordinary General Assembly to consider whether the Company shall continue to exist or be dissolved prior to the expiry of the period specified therefore under Article (6) of the By-Laws. The Extraordinary General Assembly's resolution shall be published in the Official Gazette.

11.4.48 Disputes

Each Shareholder shall have the right to bring an action in the name of the Company, against the members of the Board of Directors if they have committed a fault which has caused some particular damage to such Shareholder, provided that the Company still has the right to bring such action. The Shareholder shall notify the Company of his intention to file such action.

11.4.49 Dissolution and Winding-up of the Company

The Company shall expire upon the expiry of its term set forth in the By-laws or upon one of the matters set forth in the Companies Regulations. Upon the expiry of the Company's term, or if it is dissolved prior to the time set for the expiry thereof, the Extraordinary General Assembly shall, based on a proposal by the Board, decide the method of liquidation, appoint one (or more) liquidator and specify their powers and fees. The powers of the Board of Directors shall cease upon the Company's expiry. However, the Board of Directors shall remain responsible for the management of the Company until the liquidators are specified. The Company's administrative departments shall maintain their powers to the extent that they do not interfere with the powers of the liquidators. In all cases, the Assembly's resolution shall be published in the Official Gazette.

11.5 Summary of Material Agreements

The Company has entered into several material agreements for the objectives of carrying out its business. The Company declares that all the material agreements and transactions that the Company has entered into have been included in this summary in addition to all the main terms and conditions of all material agreements and transactions. Moreover, the Company has not breached the conditions and undertakings included in such agreements. The following is a summary for the important agreements concluded by the Company for carrying out its business.

11.5.1 Franchise Agreements

The Company concluded two franchise agreements to run two stores in Tabuk and Khamis Mushait. A brief overview can be given for these two agreements as follows:

- **Franchise Agreement for operating SACO Store in Tabuk**

This agreement was concluded on 19/02/1434H (corresponding to 01/01/2013G) between the Company (Franchiser) and Astra Food Company Ltd. (Franchisee). According to the terms and conditions of the agreement, the Company granted the Franchisee a license limited to operating SACO's store in the premises of the shop (the "Store") located in the North Western Province of the Kingdom of Saudi Arabia (the "Province"). The Franchisee agreed to pay the Franchiser the following fees:

Initial Fees

Initial license fees amounting to one hundred thousand Saudi Riyals (SAR 100,000) for the first five years to be paid over annual installments (each amounting to twenty thousand Saudi Riyals (SAR 20,000) as compensation for the right and license granted to the Franchisee to cover the initial training received by the Franchisee, the services related to selecting the location, negotiating lease conditions, services related to opening the shop and training programs to be agreed upon between the Franchisee and Franchiser.

Royalty

The Franchisee shall pay 75% out of the total sales for the Franchiser, payable on the next day following realization of sales, provided that such percentage of daily sales shall be deposited into the Franchisee's account once every week.

Renewal Fees

The Franchisee shall pay the Franchiser a sum of one hundred thousand Saudi Riyals (SAR 100,000) upon any renewal of this agreement for a similar term (five years), to be paid over annual installments equaling twenty thousand Saudi Riyals (SAR 20,000) each.

The Franchiser undertook to provide all the products and marketing materials needed by the Franchisee, while the Franchisee undertook to provide the Franchiser with a bank guarantee covering the value and costs of the products delivered to the Store.

It is agreed that if the Franchiser or Franchisee wish to have another SACO store licensed in the same area, a feasibility study shall be prepared and submitted regarding opening another store. If both parties fail to agree on opening such store within thirty (30) days as of the date of submitting the offer, the Franchiser shall have the right to offer the Store to an independent third party, except if the Franchiser is willing to have it operated by its respective employees. If any of the terms and conditions of agreement is breached and such breach is not remedied within thirty (30) days as of the date a notice is served by either party, the non-breaching party shall have the right to totally or partially terminate this agreement.

The term of this agreement shall be effective for five (5) years renewable for the same term contingent upon meeting certain conditions stated in the agreement.

This agreement shall be subject to the laws of the Kingdom of Saudi Arabia and disputes shall be referred to arbitration in Saudi Arabia.

- **Franchise Agreement for operating SACO Store in Khamis Mushait, Abha**

This agreement was concluded on 24/07/1417H (corresponding to 05/12/1996G) between the Company (Franchiser) and Al-Harbi Trading & Contracting Company (Franchisee). According to the terms and conditions of the agreement, the Company granted the Franchisee a license limited to operating SACO's store in the premises of the shop (the " Store") located in Abha City in the Southern Province of the Kingdom of Saudi Arabia (the "Province"). The Franchisee agreed to pay the Franchiser the following fees:

Initial Fees

Initial license fees amounting to one hundred thousand Saudi Riyals (SAR 100,000) to be paid over two equal installments (each amounting fifty thousand Saudi Riyals (SAR 50,000), the first instalment when signing the contract and the second installment shall be payable eighteen (18) months after signing the contract, as compensation for the right and license granted to the Franchisee to cover the initial training received by the Franchisee, the services related to selecting the location, negotiating the lease conditions, services related to opening the shop and training programs to be agreed upon between the Franchisee and Franchiser.

Royalty

The Franchisee shall pay the Franchiser 70% out of total sales, payable on the next day following realization of sales, provided that a daily statement of account accompanies such sales.

Renewal Fees

The Franchisee shall pay the Franchiser seventy five thousand Saudi Riyals (SAR 75,000) for each three-year term.

The Franchiser undertook to provide all the products, marketing materials and training needed by the Franchisee. The Franchisee shall, in turn, provide the Franchiser with a bank guarantee covering the value and costs of products delivered to the Store.

It was agreed that if the Franchiser is willing to license another SACO store in the same area, the Franchiser shall offer the store first to the Franchisee under the same terms and conditions to be offered to any other franchisee at the same time, and a feasibility study shall be submitted for opening another store. If the Franchisee does not agree on opening such store within thirty (30) days as of the date of submitting the offer, the Franchiser shall have the right to offer the store to an independent third party, except if the Franchiser is willing to have it operated by its respective employees. If any of the terms and conditions of this agreement is breached, the Franchiser shall have the right to totally or partially terminate this agreement after serving a written notice to the other party.

The term of this agreement shall be for five (5) years renewable for the same term contingent upon meeting certain conditions stated in the agreement. The agreement was renewed on 01/09/1433H (corresponding to 05/12/2011G) for five (5) years.

This agreement shall be subject to the laws of the Kingdom of Saudi Arabia and disputes shall be referred to arbitration in Saudi Centre for Commercial Arbitration.

11.5.2 Distribution Agreements

The Company concluded several distribution agreements with local and international suppliers in relation to its products. The following is a brief overview of the important provisions of the main distribution agreements:

1. Distribution agreements concluded with international suppliers

a) Membership Agreement with Ace

This agreement was entered into on 05/04/1988G between Ace Hardware Corporation and SACO. Under the terms and conditions of the agreement, Ace Hardware Corporation granted SACO exclusive distribution right in the Kingdom of Saudi Arabia allowing SACO to distribute all the products offered by Ace Hardware Corporation including housewares, paint products, tools and hardware. Under this agreement, SACO shall have the right to appoint sub-distributors to distribute the products of Ace Hardware Corporation in the Kingdom of Saudi Arabia and SACO shall notify Ace Hardware Corporation in writing when appointing those distributors without Ace Hardware Corporation having the right to object as long as the agreement is effective between it and SACO and as long as SACO abides by the terms and conditions of this agreement. In addition, Ace Hardware Corporation undertakes to exert its best efforts to provide SACO with necessary spare parts within a reasonable period of time because

SACO is bound to assure the quality of products, perform the necessary maintenance and provide spare parts when requested by the consumer for the same products. Ace Hardware Corporation undertakes to endeavor to ensure that products sold to SACO under this agreement conform to the standard specifications in the Kingdom of Saudi Arabia.

Ace International Corporation was subsequently incorporated; it is a subsidiary of Ace Hardware Corporation, entrusted with managing international operations and distribution. Thus, Ace Hardware Corporation confined its business to the US market.

Ace Hardware Corporation assigned the membership agreement concluded with SACO to Ace International Corporation under an assignment agreement dated 23/10/2010G. In addition, Ace International and SACO concluded an amendment agreement of the original agreement on 12/03/2014G whereby the exclusive rights granted to SACO in the Saudi market were renewed for a period expiring on 31/12/2024G and automatically renewable for a period of five (5) years unless one of the parties notifies the other that it does not wish to renew within a period of no more than six months prior to the expiration of the agreement. Provided, however, that all the other terms and conditions within the amended agreement shall remain unchanged.

Pursuant to a written notice to the other party, either party may terminate the membership agreement at any time if the other party breaches one of the main obligations under the membership agreement and fails to remedy such breach within sixty (60) days. If the breach is not remedied within the specified period, the other party shall be notified of termination, provided that such notice shall state a period of notice not less than three (3) months as of the date thereof.

This agreement shall be subject and construed in accordance with the laws of the Kingdom of Saudi Arabia and any disputes related thereto shall be referred to the competent court in Riyadh.

b) Distributorship agreement in Bahrain with Ace International

This agreement was entered into on 28/01/2012G between Ace International Corporation and SACO. Pursuant to the terms and conditions of this agreement, Ace International granted SACO exclusive distribution rights for Ace products in the Kingdom of Bahrain. This agreement shall be binding to both parties as of the date of its signing for an initial term of ten (10) years. SACO shall have the right to renew this agreement on expiration of the initial term for another ten-year term. It is noteworthy that this agreement is completely separate from the agreement with Ace International regarding distribution in the Kingdom of Saudi Arabia, and any breach of the terms and conditions of either agreement shall not affect the other agreement.

SACO commits to purchase from Ace International or its subsidiaries an annual minimum target of products equivalent to: (a) 50% out of the cost of products sold in each of the stores run by the Company in the Kingdom of Bahrain; or (b) an amount of monies to be agreed upon in the agreement. In addition, the annual minimum purchase target of products shall be agreed upon between both parties before the renewal of the agreement term.

Either party may terminate this agreement pursuant to a written notice to the other party in any of the following cases:

- If either party is declared bankrupt, insolvent or has its assets liquidated.
- If a trustee, receiver or liquidator is appointed in connection with all or a substantial part of either party's assets or business.
- If all or a substantial part of either party's assets are attached, seized or confiscated.
- If either party breaches any of the terms and conditions of this agreement and fails to remedy such breach within a period of sixty (60) days pursuant to a written notice to the other party.

This agreement shall be deemed terminated (at the sole discretion of Ace International) as soon as the Company receives a notice of termination in the following cases:

- If SACO makes any misrepresentation or omits material information.
- If SACO refuses to or fails to operate any of the stores of Ace for a period of ten (10) days during any twelve-month period.
- If SACO waives its right to operate any of the stores.
- If SACO fails to pay amounts due for purchases for two or more times within any consecutive twelve-month period.
- If SACO fails to meet the annual performance requirements referred to in the agreement.
- If SACO refuses to pay any amounts due to Ace International within a period of 15 days as of the date the Company is notified of the same in writing.

- If SACO breaches any of the terms and conditions of this agreement and fails to remedy such breach within a period of sixty (60) days.

This agreement shall be subject to the laws of the State of Illinois, USA, and any disputes relating thereto shall be referred to the US Arbitration Association.

It is also noteworthy that up to the date hereof, SACO had not opened any showrooms in the Kingdom of Bahrain and accordingly, SACO does not abide by the terms and conditions of the agreement particularly the clause relating to the minimum purchases target, which entitles Ace International to terminate this agreement. However, on 12/12/2014G, Ace International granted SACO an additional grace period up to 31/12/2015G to open a SACO store in the Kingdom of Bahrain. The Company will study the feasibility of opening a SACO store in the Kingdom of Bahrain during 2015G, and one shall be opened there if the Company finds the proper location and favorable circumstances.

c) BICO International Limited Company

On 19/06/2013G, the Company entered into a distribution agreement with BICO International Limited Company ("BICO Company") to distribute the products of BICO Company in the Kingdom of Saudi Arabia, which include housewares.

The term of this agreement is effective for six (6) years commencing as of 01/06/2013G, automatically renewable unless either party serves the other party with a minimum three month notice of its intent not to renew the agreement.

BICO agreed to provide support to the distributor by granting the latter 3% of its total volume of annual business for marketing and advertising, and give SACO exclusive Saudi distribution rights for products referred to in the agreement.

In addition, both parties agreed that if the agreement is improperly terminated or cancelled in such manner causing damages to the other party, the terminating party shall indemnify the other party, taking into consideration any efforts made to meet the requirements and conditions of the distribution agreement prior to the improper termination.

The agreement shall be governed by the laws and regulations of the Kingdom of Saudi Arabia.

d) Ningbo Liyang Curtain Company Limited

The Company entered into an exclusive distribution agreement with Ningbo Liyang Curtain Company Limited ("Ningbo Liyang Curtain Company") on 01/08/2013G to distribute Ningbo Liyang products in the Kingdom of Saudi Arabia, which include curtains and related accessories.

The term of this agreement is for six (6) years commencing as of 01/08/2013G, automatically renewable unless either party serves to the other party with a minimum three-month prior written notice of its intent not to renew this agreement.

Both parties agreed that if the agreement is improperly terminated in such manner resulting in damages to either party, the terminating party shall indemnify the other party.

If any dispute arises between the parties in connection with the agreement, the same shall be amicably settled; otherwise, the dispute shall be referred to the Riyadh Commercial Dispute Resolution Committee.

The agreement shall be governed by the laws and regulations of the Kingdom of Saudi Arabia.

e) 3M Gulf Limited Company

On 01/01/2014G, the Company entered into a non-exclusive distribution agreement with 3M Gulf Limited Company ("3M Company") to distribute 3M Company products in the Kingdom of Saudi Arabia, which include household care products.

The term of this agreement is for two (2) years as of 01/01/2014G and expires on 31/12/2015G, renewable for similar term(s) pursuant to a written agreement by both parties.

SACO undertakes to purchase from 3M Company a minimum annual target of products for each of the categories of products distributed by SACO. In addition, the annual minimum purchase target of products shall be agreed upon between both parties at the beginning of every year. Moreover, 3M Company shall have the right to increase prices at any time after serving the Company a four-week written notice thereto.

SACO shall not have the right, without written approval from 3M Company, to sell, market or promote any products competing with those of 3M Limited Company as listed in this agreement and distributed by SACO in the Kingdom of Saudi Arabia, nor shall SACO have a material interest in the sale, marketing or promotion of such competitive products.

This agreement may be terminated during the original or renewed term in the following cases:

- Either party shall have the right to terminate this agreement without cause pursuant to a ninety-day written notice to the other party.
- 3M Company shall have the right to terminate this agreement with immediate effect without indemnifying the Company if the Company breaches any of the regulations set forth in the agreement.
- 3M Company shall have the right to terminate this agreement pursuant to a written notice if the Company's ownership or management undergoes change unless the Company proves that such change would not affect the Company's capability to fulfill its obligations under this agreement.
- 3M Company shall have the right to terminate this agreement pursuant to a sixty-day written notice if the Company fails to abide by the minimum purchase target stated in the agreement, unless the Company proves that it will immediately take necessary actions to achieve those minimum targets.
- Either party shall have the right to terminate this agreement pursuant to a thirty-day notice to the other party if either party breaches any of the provisions or conditions of this agreement and fails to remedy such breach within a period of thirty (30) days.
- Either party shall have the right to terminate this agreement on the announcement of either party's liquidation, bankruptcy or insolvency, or if a trustee, receiver or liquidator is appointed.

This agreement shall be subject to the laws of England and if any dispute ensues between both parties in connection with the agreement, the dispute shall be amicably settled. If the dispute cannot be amicably resolved, then both parties shall hold a meeting to be attended by senior management and the Company to settle the dispute. If the dispute cannot be settled, it shall be referred to the London Court of International Arbitration.

SACO notified 3M Company on 15/02/2015G of the anticipated Initial Public Offering and that such change in the ownership would not affect the Company's capability to fulfill its obligations under this agreement. 3M's consent thereto was obtained on 15/02/2015G.

2. Distribution agreements concluded with local suppliers

a) Ahmed Abdulwahed Company for Appliances and Tools

On 01/01/2014G, the Company entered into a distribution agreement with Ahmed Abdulwahed Company for Appliances and Tools ("Ahmed Abdulwahed Company") for distributing a range of products in the Kingdom of Saudi Arabia including Kenwood, DeLonghi, Braun, Philips and Babyliss products.

The term of this agreement is one (1) year commencing on 01/01/2014G and may be renewed for a similar term by written notice. This agreement was renewed for one additional year expiring on 31/12/2015G.

Ahmed Abdulwahed Company undertakes to offer the most competitive prices to SACO; otherwise, SACO may file claim for indemnity. In addition, Ahmed Abdulwahed Company commits to serve at least thirty-day prior notice to the Company if it decided to change agreed upon product prices.

If either party wishes to terminate the contract, it needs to give the other party at least ninety-day notice.

This agreement is governed by the laws and regulations of the Kingdom.

b) Juffali Technical Equipment Company

On 01/05/2013G, the Company entered into a distribution agreement with Juffali Technical Equipment Company ("JTECO Company") for the distribution of JTECO products in the Kingdom.

The term of this agreement is six (6) months commencing on 02/06/2013G and expiring on 31/12/2013G. It was renewed for one additional year expiring on 31/12/2014G. This agreement was also renewed for one additional year expiring on 31/12/2015G.

JTECO Company agreed to grant SACO an exclusive distribution rights for certain types of Karcher high water pressure products used in houses and gardens, provided that SACO shall not, directly or indirectly, offer or sell any competing brand high water pressure machines in its stores.

c) Green Vision Co. Ltd. for Artificial Grass

On 12/11/2013G, the Company entered into an exclusive commercial agency agreement with Green Vision Co. Ltd. for Artificial Grass ("Green Vision Company") for the distribution and installation of artificial grass.

The term of this agreement is five (5) years commencing on 01/12/2013G and expiring on 01/12/2018G; it is annually renewable unless either party notifies the other party in writing by registered mail, at least three months prior to the expiration of the original or renewed term, of its unwillingness to renew the agreement. The contract may be prematurely terminated if the annual sales volume is not reached as agreed upon in the agreement.

Green Vision Company shall assure the quality of manufacturing of all relevant products. If Green Vision Company awards retail distribution rights for any of the relevant products to a third party other than the Company, then the Company shall have the right to file a claim for indemnity from Green Vision Company.

Green Vision Company shall have the right to terminate this agreement if the Company fails to fulfill the agreed upon sales volume.

Disputes arising from the execution of this agreement shall be settled through one arbitrator to be agreed upon by both parties, and failing the same, the case shall be referred to the competent court in the Kingdom.

The agreement shall be governed by the laws and regulations of the Kingdom of Saudi Arabia.

d) Mugbel Alkhalaf Wood & Charcoal Factory Company

On 23/03/2014G, the Company entered into an exclusive commercial agency agreement with Mugbel Alkhalaf Firewood & Charcoal Factory Company ("Mugbel Alkhalaf Factory Company") for distributing firewood and coal products under the trade name of "Join".

The term of this agreement is one (1) year commencing on 23/03/2014G and expiring on 23/03/2015G, annually renewable unless either party notifies the other by registered mail, at least three months prior to the expiration of original or renewed term, that it is unwilling to renew the agreement.

Both parties agreed that, when renewing the agreement, projected sales volume over the coming years shall be assessed and determined after the end of the first year. The parties shall also agree on and set product prices every six months during the term of this agreement.

Mugbel Alkhalaf Factory Company shall guarantee the manufacturing quality of all the relevant products and ensure that they conform to the standard specifications approved in the Kingdom. If Mugbel Alkhalaf Factory Company awards retail distribution rights for any of the relevant products to a third party other than the Company, then the Company shall have the right to file a claim for indemnity from Mugbel Alkhalaf Factory Company.

Disputes arising from the execution of this agreement shall be settled through arbitration in the Kingdom of Saudi Arabia.

The agreement shall be governed by the laws and regulations of the Kingdom of Saudi Arabia.

e) Digital Electronics Solution and Development

On 01/01/2014G, the Company entered into a distribution agreement with Digital Electronics Solution and Development Company Ltd. ("Digital Electronics Solution and Development Company") to distribute Philips products in the Kingdom of Saudi Arabia, including electrical appliances.

The term of this agreement is one (1) year commencing on 01/01/2014G and may be renewed for a similar term by written notice. This agreement expired and is currently being renewed.

Digital Electronics Solution and Development undertook to offer SACO products at the most competitive prices; otherwise, SACO may file claim for indemnity. In addition, Digital Electronics Solution and Development undertook to serve the Company with a minimum thirty-day prior notice if it decides to make changes to the agreed upon product prices.

If either party wishes to terminate the contract, it shall serve the other with a minimum ninety-day prior notice to that effect.

This agreement is governed by the laws and regulations of the Kingdom.

f) Other local suppliers

SACO entered into a model commercial agreement with 300 local supplies to distribute a number of products and hardware in its stores (including the distribution of coffee makers and kitchen supplies).

The term of these agreements is for one (1) year renewable for a similar term by written notice.

These agreements state that any delay in delivering goods to SACO, for one month or more, without serving prior notice thereto, will cause the concerned supplier to be removed from the list of SACO suppliers.

If any party wishes to terminate the contract, it shall serve the other party with a minimum ninety-day notice to that effect.

These agreements shall be governed by the laws and regulations of the Kingdom of Saudi Arabia.

11.5.3 Software and Information Technology Agreements

The following is a brief overview of material agreements concluded by the Company in the field of software and information technology:

1. Futura4POS application software agreement with Seal Infotech

On 20/03/2013G, the Company entered into an agreement with Seal Infotech for the implementation of the Futura4POS software, a system for managing points of sale and invoicing; pursuant to which Seal Infotech shall provide SACO with an advanced information system to support the management of sales and pricing operations. The software was implemented on 29/11/2013G, and the Company obtained the services agreed upon under this agreement.

Neither party shall bear any responsibility for indemnifying the other party for any indirect damages resulting under the agreement or related thereto, even if such party is notified that such damages might occur. Noting that, each party shall be responsible for any damages directly caused thereby to the other party as a result of violating the provisions of this agreement as well as for breaching confidentiality of information related to this agreement.

Either party shall have the right to terminate the agreement by serving a ninety-day prior written notice. If either party breaches the terms and conditions of this agreement, the other party shall have the right to terminate the agreement after serving a written notice of breach if the same is not remedied within thirty (30) days as of the date of notice. Either party may terminate this agreement by serving the other party with a written notice if any procedures are initiated in relation to bankruptcy, insolvency or liquidation by or against the other party, or if an assignee, creditor representative or receiver is appointed, or any similar procedures undertaken.

The agreement shall be governed by the laws and regulations of the Kingdom of Saudi Arabia.

2. Purchase orders of information technology products

From time to time, and based on its needs, the Company procures a number of information technology products. This is done through several purchase orders, where each order mainly contains the following:

- Purchase order number and date;
- Pro-forma invoice number;
- Method of payment and delivery;
- Commodity type and specifications;
- Name of commodity, its price and quantities;
- Total value.

11.5.4 Subsidy agreements

1. Comprehensive subsidy agreements with Human Resources Development Fund

On 28/03/1434H (corresponding to 09/02/2013G), the Company entered into an agreement with the Human Resources Development Fund ("Development Fund") for the purpose of benefitting from the support programs provided by the Fund, which are concerned with supporting, training and employing human resources at SACO.

The Development Fund undertakes to provide financial subsidy in consideration for placement of the beneficiaries of subsidy programs, and SACO undertakes to sign employment contract with the beneficiaries according to the employment contract format approved by the Development Fund. SACO shall not reduce their salaries after the expiration of said agreement term. In addition, no amounts of monies may be collected from beneficiaries as costs for training or otherwise.

This agreement came into effect on 28/03/1434H (corresponding to 09/02/2013G) and shall remain valid for a period of twelve months renewable for similar term(s) provided that SACO shall electronically update its information. SACO electronically updated its information and therefore this agreement was renewed for an initial one year and was also renewed for one subsequent additional year.

The Development Fund shall have the right to terminate this agreement in the following cases:

- SACO breaches any of the provisions of this agreement.
- If SACO receives subsidy from the Development Fund based on false or deceitful information.
- If SACO disburses subsidy amounts for purposes other than those they are intended for.
- If SACO fails to implement the agreed upon training programs.
- If SACO fails to provide all or some of the information required by the Development Fund.

This agreement shall be subject to the rules and regulations of the Development Fund.

11.6 Insurance

The Company holds insurance policies covering different types of risks associated with its business, assets and third party liability. It also holds coverage on theft of cash and breach of trust. The Company believes that the insurance policies provide sufficient coverage to protect the Company against personal bodily harm that may incur inside the Company's premises, accidents that may suddenly occur within the normal course of business, or any damage to its assets or properties. The Company intends to renew such policies on expiration. The present policies do not include any material terms or exclusions on insurance coverage not disclosed in this Prospectus.

The main details about insurance policies of the Company are set out below:

Table 11.2: Key details of the insurance policies held by the Company

Insurance company	Insurance type	Policy No.	Coverage period	Important provisions	Insured amount	Paid Value of policy
Allianz Saudi Fransi Cooperative Insurance Company	Fidelity Guarantee Policy	10777/FGI	01/06/2014G to 31/05/2015G	**Coverage:** • Acts of fraud or breach of trust by employees. • Employees' passports maintained by the Company **Exclusions:** • Hostilities • Any act(s) of fraud or breach of trust committed by one of the employees, and discovered six months after termination of employment; • Other exclusions as stated in the insurance policy	**Total insured amount:** • SAR 3,000,000 • Maximum limit for indemnity shall be SAR 550,000 per person provided that the amount shall not exceed SAR 3,000,000.	SAR 77,525
Allianz Saudi Fransi Cooperative Insurance Company	Land Transit Insurance Policy	135434/TOC	01/06/2014G to 31/05/2015G	**Coverage:** • Any loss caused to cargo or general commodities transported by land inside the Kingdom of Saudi Arabia. **Exclusions:** • War, sabotage, Hostilities • Pollution; • Political risks, financial guarantees and credit risks; • Other exclusions as stated in the insurance policy.	**Total insured amount:** • SAR 290,000,000 • Maximum limit per cargo is SAR 6,000,000.	SAR 435,000

Insurance company	Insurance type	Policy No.	Coverage period	Important provisions	Insured amount	Paid Value of policy
Allianz Saudi Fransi Cooperative Insurance Company	Marine Open Cover Policy	135442/TOC	01/06/2014G to 31/05/2015G	**Coverage:** • Any loss or damage caused to cargos and general commodities transported by air and/or by sea from anywhere in the world to the Insured's warehouse in the Kingdom of Saudi Arabia. **Exclusions:** • Leaks and pollution; • Political Risks; • Radioactive pollution; • Other exclusions as stated in the insurance policy.	**Total insured amount:** • SAR 508,000,000 • Maximum limit of indemnity is SAR 6,000,000 per cargo.	SAR 1,397,000
Allianz Saudi Fransi Cooperative Insurance Company	Money insurance policy	10785/MNY	01/06/2014G to 31/05/2015G	**Coverage:** • Loss of monies kept in safes in each of the Central, Eastern and Western Provinces in the Kingdom of Saudi Arabia. **Exclusions:** • Loss due to theft, embezzlement or breach of trust by the Insured's employees; • Loss due to clerical or accounting errors; • Military attack, rebellion, riots or civil unrest; • Other exclusions as stated in the insurance policy.	• Loss of monies kept in safes: • SAR 3,346,000 • Maximum limit for indemnity is the same insurance amount of SAR 3,346,000. • Cash-in-transit (CIT): SAR 1,140,077,500 • Maximum limit per claim is SAR 3,500,000)	SAR 213,965
Allianz Saudi Fransi Cooperative Insurance Company	Motor Fleet Insurance Policy	69153/MFP	01/06/2014G to 31/05/2015G	**Coverage:** • Loss of an insured car or damage caused thereto: According to the attached lists for each car or vehicle. • Third Party Liability: SAR 10,000,000 **Exclusions:** • Depreciation; • Consequential loss; • Accident occurring outside the specified geographical area; • Driver under 18 years old; • Wars, strikes, hostilities and exposure to nuclear /radioactive substances.	**Total insured amount:** • SAR 4,845,000 • The maximum limit for each claim is the market value or insurance value, whichever is lower, less the deductibles.	SAR 156,310

Insurance company	Insurance type	Policy No.	Coverage period	Important provisions	Insured amount	Paid Value of policy
Allianz Saudi Fransi Cooperative Insurance Company	Property All Risk Insurance	12286/PAR	01/06/2014G to 31/05/2015G	Coverage: • All risks to properties. Exclusions: • Hostilities • Other exclusions as stated in the insurance policy.	**Total insured amount:** • SAR 923,740,094 • Maximum limit of indemnity is • 100,000,000 per site for each accident	SAR 1,242,765
Allianz Saudi Fransi Cooperative Insurance Company	Public Liability Insurance	11007/PLI	01/06/2014G to 31/05/2015G	**Coverage:** • Death, accidental physical injury and/ or loss of properties resulting from the business of the Insured, which occur during the insurance period in the places stated in the insurance policy. **Exclusions:** • Defamation; • Original or consequential financial loss; • Penalties and sanctions; • Radioactive pollution; • Other exclusions as stated in the insurance policy.	**Total insured amount:** • SAR 40,000,000 • (Maximum limit of indemnity is • SAR 20,000,000 per accident and at a maximum limit of SAR 40,000,000)	SAR 21,625

Source: The Company

On 11 September 2013G, fire broke out at the head office building and SACO store located in Takhassusi Street in Riyadh resulting in considerable damage to the store and the Company's offices. The Company previously insured the building under an insurance policy issued by Allianz Insurance Company. SACO claimed a sum of SAR 25.2 million from Allianz Company, and accordingly, a sum of SAR 5 million was received as a first payment. The Company continues to follow-up its claim for the remaining amount through a specialized firm (for more information, see Paragraph 1.7.6 "Receivables").

On 1 October 2013G, fire broke out at the distribution center of the Company's store in Al-Ahsa, which resulted in losses estimated by the Company at SAR 3.1 million. The Company is still following up its claim for indemnity.

On 17 November 2013G, floods caused damages to the SACO store located in Albadeaa Area in Riyadh and the Company estimated the resulting losses at approximately SAR 1.27 million. This amount was subsequently received in full.

11.7 Bank Facilities

The Company is party to credit facilities and loan agreements with three local banks. The Company declares that all the material finance arrangements were included in this summary. In addition, all the main terms and conditions of the financial agreements, guarantees and promissory notes as well as other material financial arrangements were also included. Moreover, there is no breach of the conditions or undertakings included in the finance agreements. Furthermore, some financial agreements entered into by the Company include a clause entitling the financer to terminate the agreement if the Company's ownership structure is changed without prior approval from the other party. The Company has obtained these approvals. The following is a summary of the credit facilities being availed by the Company:

11.7.1 The Saudi British Bank (SABB)

On 11//11/2013G, the Company concluded an Islamic facilities agreement (Murabaha) with the Saudi British Bank (SABB) to benefit from facilities amounting one hundred and eight million nine hundred and eighty five thousand Saudi Riyals (SAR 108,985,000) ("SABB Facilities"); noting that these facilities are valid up to 30/06/2014G.

These facilities consist of:

- Murabaha/Securitization financing for metals amounting to SAR 3,714,000 (three million seven hundred and fourteen thousand Saudi Riyals);
- Murabaha/Securitization financing for metals amounting to SAR 10,000,000 (ten million Saudi Riyals);
- Murabaha/Securitization financing for metals amounting to SAR 8,212,000 (eight million two hundred and twelve thousand Saudi Riyals);
- Murabaha/Securitization financing for metals amounting to SAR 5,059,000 (five million and fifty nine thousand Saudi Riyals);
- Murabaha/Securitization financing for metals amounting to SAR 40,000,000 (forty million Saudi Riyals);
- Murabaha documentary letter of credit finance (at sight/credit/Category B) amounting to SAR 30,000,000 (thirty million Saudi Riyals);
- Bid bonds, performance bonds and advance payment amounting to SAR 2,000,000 (two million Saudi Riyals);
- Hedge facilities against foreign currency exchange rate fluctuations; Murabaha/Securitization financing for metals amounting to SAR 5,000,000 (five million Saudi Riyals); and
- Islamic cash account amounting to SAR 5,000,000 (five million Saudi Riyals).

These facilities aim to finance the Company's operations (building 3 stores under the name of "SACO World"; partial finance to purchase a land plot to erect the head office building; restoring the Takhassusi Store; building the Sawari Store; financing operating capital, imports and issuance of guarantees in connection with the Company's business activities; and hedging against trade-related foreign currencies exchange rate risks). Noting that hedge facilities against Islamic exchange rate risks, which include coverage amounting to SAR 5,000,000 (five million Saudi Riyals) contain additional terms and conditions, including:

- Conformity with Islamic Shariah;
- Waiver of immunity;
- Non-assignment of agreement or any of its obligations without SABB's written approval.

All the facilities are annually renewable and each murabaha transaction will have a period not exceeding 6 months and not less than 30 days, as of the date of purchase by the Bank.

These credit lines are secured under:

- A demand promissory note signed by the Company for the sum of SAR 108,985,000 (one hundred and eight million nine hundred and eighty five thousand Saudi Riyals);
- Personal guarantee provided by Khalid Mohammad Abdulaziz Al-Hamidi amounting SAR 14,531,333 (fourteen million five hundred and thirty one thousand three hundred and thirty three Saudi Riyals);
- Personal guarantee provided by Abdul Rahman Hassan Abbas Sharbatly amounting SAR 32,695,500 (thirty two million six hundred and ninety five thousand five hundred Saudi Riyals);
- Personal guarantee provided by Sameer Mohammad Abdulaziz Al-Hamidi amounting SAR 14,531,333 (fourteen million five hundred and thirty one thousand three hundred thirty three Saudi Riyals);
- Personal guarantee provided by Haytham Mohammad Abdulaziz Al-Hamidi amounting SAR 14,531,333 (fourteen million five hundred and thirty one thousand three hundred thirty three Saudi Riyals); and
- Personal guarantee provided by Samauel Abdullah Taha Bakhsh amounting SAR 32,695,500 (thirty two million six hundred and ninety five thousand five hundred Saudi Riyals).

On 19/12/2013G, the Company entered into an additional precious metals murabaha facilities agreement to finance shareholder advances amounting to SAR 30,000,000 (thirty million Saudi Riyals). The facility is valid for a single two year period beginning when Saudi British Bank (SABB) concludes the purchase, with a minimum limit of 30 days per transaction.

The additional facility is secured under:

- A promissory note signed by the Company, amounting SAR 30,000,000 (thirty million Saudi Riyals);
- Personal guarantee provided by Abdul Rahman Hassan Abbas Sharbatly, amounting SAR 9,000,000 (nine million Saudi Riyals);
- Personal guarantee provided by Khalid Mohammad Al-Hamidi, amounting SAR 4,000,000 (four million Saudi Riyals);

- Personal guarantee provided by Sameer Mohammad Al-Hamidi, amounting SAR 4,000,000 (four million Saudi Riyals);
- Personal guarantee provided by Haytham Mohammad Al-Hamidi, amounting SAR 4,000,000 (four million Saudi Riyals); and
- Personal guarantee provided by Samauel Abdullah Bakhsh, amounting SAR 9,000,000 (nine million Saudi Riyals).

On 30/06/2014G, the total value of SABB facilities amounted to SAR 138,985,000 (one hundred and thirty eight million nine hundred and eighty five thousand Saudi Riyals). The total amount used by the Company (including the value of documentary letters of credit and current letters of guarantee) under this agreement on 30/06/2014G amounted to SAR 107,985,866 (one hundred and seven million nine hundred and eighty five thousand eight hundred and sixty six Saudi Riyals).

On 14/08/2014G, the Company renewed the above two agreements where the total limits of facilities available to the Company amounted to SAR 138,839,935 (one hundred and thirty eight million eight hundred and thirty nine thousand nine hundred and thirty five Saudi Riyals)*; they are both valid until 30/09/2015G.

These facilities consist of:

- Murabaha/Securitization financing for metals amounting SAR 3,847,674.14;
- Murabaha/Securitization financing for metals amounting SAR 2,141,666.61;
- Murabaha/Securitization financing for metals amounting SAR 33,500,593.56;
- Murabaha/Securitization financing for metals amounting SAR 21,250,000;
- Murabaha documentary letter of credit finance (at sight/credit/ Category B) amounting SAR 50,000,000 (fifty million Saudi Riyals);
- Currency future facilities amounting to SAR 5,000,000 (five million Saudi Riyals);
- Credit card facilities amounting to SAR 100,000 (one hundred thousand Saudi Riyals);
- Islamic cash account amounting to SAR 5,000,000 (five million Saudi Riyals);
- Murabaha/Securitization financing for metals amounting to SAR 10,000,000 (ten million Saudi Riyals); and
- Bid bonds, performance bonds and advance payment amounting SAR 2,000,000 (two million Saudi Riyals).

This agreement is secured under:

- Promissory note provided by the Company, amounting SAR 132,839,935 (one hundred and thirty two million eight hundred and thirty nine thousand nine hundred and thirty five Saudi Riyals); and
- Personal guarantees included within the guarantees of both agreements mentioned above.

The Saudi British Bank (SABB) shall have the right to withdraw or cancel the limits of facilities stated in the facilities agreement and demand the payment of all due liabilities. If the Company's ownership changes, the bank shall have the right to amend the terms and conditions of the present facilities by requesting additional guarantees, demanding the payment of due amounts, cancelling the limits or suspending the use of the extended credit facilities. The bank shall have the absolute right to merge the accounts maintained in the name of the Company or consolidate the payable amounts at any time at its sole discretion without serving any prior notice to the Company.

On 13/05/2014G, SACO notified SABB of the prospective Initial Public Offering, and requested the bank's consent not to consider any event resulting from such offering process as a breach or default under the facilities agreement. SABB's approval was obtained on 13/05/2014G.

As at 31/12/2014G, the total amount used by the Company (including the value of documentary letters of credit and current letters of guarantee) under this agreement amounted to SAR 121,946,135 (one hundred and twenty one million nine hundred and forty six thousand one hundred and thirty five Saudi Riyals).

*Please note that the total of facilities herein is higher than the total facilities listed in the financial statements because of the difference in the limits available for mid-term loans as the financial statements show the limits available for use while the above summary shows the entire limits of mid-term loans when signing the agreement.

11.7.2 Banque Saudi Fransi

On 02/01/2014G, the Company entered into an Islamic facilities agreement with Banque Saudi Fransi to benefit from facilities amounting SAR 66,687,000 (sixty six million six hundred and eighty seven thousand Saudi Riyals)* and such facilities aim at financing the operations of the Company and enlarging SACO World store in Jeddah. These facilities ("**Banque Saudi Fransi Facilities**") consist of the following:

- Multi-purpose facilities: Short-term facilities and financing of commodity purchases and sales (securitization) amounting SAR 14,000,000 (fourteen million Saudi Riyals);
- Multi-purpose facilities: For issuing sight documentary letters of credit for customary period (multiple supply), multiple bonds (advance payments, bid bonds, performance bonds, payment guarantees, commodities (securitization), short-term loans amounting SAR 50,000,000 (fifty million Saudi Riyals);
- Payment guarantees amounting to SAR 187,000 (one hundred eighty seven thousand Saudi Riyals);
- Long-term loan amounting to SAR 2,500,000 (two million and five hundred thousand Saudi Riyals).

Noting that, this agreement expired on 30 November 2014G and is currently being renewed.

As for the Company's obligations for all the credit facilities extended by the bank, they are secured under:

- A demand promissory note provided by the Company, amounting to SAR 66,687,000 (sixty six million six hundred and eighty seven thousand Saudi Riyals);
- Personal guarantee provided by Khalid Mohammad Abdulaziz Al-Hamidi amounting to SAR 333,435 (three hundred and thirty three thousand four hundred and thirty five Saudi Riyals);
- Personal guarantee provided by Abdul Rahman Hassan Abbas Sharbatly amounting to SAR 20,006,100 (twenty million six thousand and one hundred Saudi Riyals);
- Personal guarantee provided by Sameer Mohammad Abdulaziz Al-Hamidi amounting to SAR 333, 435 (three hundred and thirty three thousand four hundred and thirty five Saudi Riyals);
- Personal guarantee provided by Haytham Mohammad Abdulaziz Al-Hamidi amounting to SAR 333, 435 (three hundred and thirty three thousand four hundred and thirty five Saudi Riyals);
- Personal guarantee provided by Al-Hamidi Contracting Establishment, amounting to SAR 25,674,495 (twenty five million six hundred and seventy four thousand four hundred and ninety five Saudi Riyals); and
- Personal guarantee provided by Abrar Global Holding Company amounting to SAR 20,006,100 (twenty million six thousand and one hundred Saudi Riyals).

This agreement includes the following conditions:

- Maximum ratio of loans to shareholder equity shall be 2:1.
- Minimum trading rate ratio shall be 1.5:1.
- Deposit 30% of sales proceeds in the Company's account with the bank.
- Minimum shareholders' equity in the Company shall be SAR 250 million.
- Maximum limit of dividend distributions shall be 50% of net income.

Banque Saudi Fransi shall have the right to exercise the set-off right with regard to any property right or interest belonging to the Company under the bank's custody and control for the purpose of settling any amounts payable by the Company. The bank may withdraw or cancel the limits of facilities granted to the Company and demand payment for all due liabilities after notifying the Company in writing 15 days in advance. The bank shall also have the absolute right to change the amount of fees, percentage of dividends and merge the accounts maintained in the name of the Company or consolidate the payable amounts at any time at its sole discretion without serving any prior notice to the Company.

On 13/05/2014G, SACO notified Banque Saudi Fransi of the prospective Initial Public Offering and requested the bank's consent not to consider any case resulting from this offering process as a breach or default under the facilities agreement. Banque Saudi Fransi's approval was obtained on 13/05/2014G.

As at 31/12/2014G, the total amount used by the Company (including the value of documentary letters of credit and current letters of guarantee) under this agreement amounted to SAR 45,000,351 (forty five million three hundred and fifty one Saudi Riyals).

On 15/09/2014G, the Company entered into a future purchase agreement for US dollars against Saudi Riyals with Banque Saudi Fransi commencing on 17/03/2015G and expiring on 16/02/2017G. Under this agreement, the Company undertakes to purchase USD 3,000,000 (three million United States dollars) on a monthly basis to be calculated on the basis of the prevalent exchange rate on the maturity date of each purchase transaction. This agreement is secured by a promissory note provided by the Company for SAR 12,000,000 (twelve million Saudi Riyals). This agreement shall be governed by the applicable laws in the Kingdom of Saudi Arabia.

* Please note that the total facilities value herein is higher than the total facilities stated in the financial statements because of the difference in the limits available for mid-term loans as the financial statements show the limits available for use while the above summary shows the entire limits of mid-term loans when signing the agreement.

11.7.3 The Saudi Investment Bank

On 31/12/2013G, the Company entered into an Islamic facilities agreement with the Saudi Investment Bank for SAR 85,000,000 (eighty five million Saudi Riyals). These facilities ("**Saudi Investment Bank Facilities**") consist of the following:

- Murabaha mid-term facility amounting to SAR 15,000,000 (fifteen million Saudi Riyals);
- Sight and/or deferred documentary letters of credit (local/for importation) for importing/purchasing commodities from the local market at a value amounting SAR 70,000,000 (seventy million Saudi Riyals), consisting of two sub-facilities, namely:
    - Murabaha facility for refinancing documentary letters of credit and/or finance of instruments being collected by the bank and/or finance of direct payment to suppliers.
    - Demand letters of credit for importing commodities from Ace Hardware Corporation.

Noting that, this agreement expired on 30/11/2014G and is currently being renewed.

The Company's obligations are secured through proportionate irrevocable and unconditional personal guarantees covering all credit facilities extended by the Saudi Investment Bank, which are duly provided by:

- Sameer Mohammad Abdulaziz Al-Hamidi (13.33%);
- Khalid Mohammad Abdulaziz Al-Hamidi (13.33%);
- Haytham Mohammad Abdulaziz Al-Hamidi (13.33%);
- Samauel Abdullah Taha Bakhsh (30%);
- Abdul Rahman Hassan Abbas Sharbatly (30%);

This agreement includes the following conditions:

- Maximum ratio of loans to total tangible assets shall be 2.5:1.
- Minimum trading rate ratio shall be 1.25:1.
- Deposit 30% of sales proceeds in the Company's account with the bank.
- Maximum limit of dividend distributions shall be 75% of net income.

SACO notified Saudi Investment Bank on 13/05/2014G of the prospective Initial Public Offering and requested the Bank's consent not to consider any event resulting from the offering process as a breach or default under the facilities agreement. The Saudi Investment Bank's approval was obtained on 13/05/2014G.

As at 31/12/2014G, the total amount used by the Company (including the value of documentary letters of credit and current letters of guarantee) under this agreement amounted to SAR 67,564,725 (sixty seven million five hundred and sixty four thousand seven hundred and twenty five Saudi Riyals).

11.8 Guarantees

The Company obtained a number of credit facilities totaling SAR 290.7 million, while the total amount used was SAR 234.5 million as at 31/12/2014G. Details of these facilities and guarantees are stated below:

Table 11.3: Key details of the credit facilities obtained by the Company and the related guarantees as on 31/12/2014G

Bank Name	Company Name	Type of facilities	Total amount of the available facilities	Used total amount	Type of guarantees	Term of Agreement
			SAR million	SAR million		
SAAB Bank	SACO	• Metal Murabaha Liquidity Finance (Tawarruq) • Murabaha Finance-documentary credits • Advance/Tender / performance guarantees • Islamic foreign exchange hedging rate • Islamic monetary • Credit card	123.01	121.95	Promissory note and personal letters of guarantee	From 14/08/2014G to 30/09/2015G
Banque Saudi Fransi	SACO	• Goods purchase and sale finance facility (Tawarruq) • Short-term loan facility • Multi-purpose facility to issue documentary credits • Advance/ tender / performance guarantees • Long term borrowings	64.2	45.0	Promissory note, personal letters of guarantee and companies	From 02/01/2014G to 30/11/2014G (under renewal)
The Saudi Investment Bank	SACO	• Medium term Murabaha facility • Current and/ or deferred documentary letters of credit, and / or financing of documents or direct payments to suppliers	85.0	67.5	Relative, irrevocable and unconditional personal guarantees	From 31/12/2013G to 30/11/2014G (under renewal)

Source: The Company

11.9 Real Estates

11.9.1 Title deeds

The Company owns a piece of land in Riyadh as detailed in the following table.

Table 11.4: Title deeds relating to the properties registered in the name of SACO

COMPANY NAME	Issue Date	Location	Surface Area	Purpose
SACO	10/04/1435H (corresponding to 11/02/2014G)	Prince Sultan Street, Olaya district, Riyadh	3,359 m^2	Building a new main center for SACO

Source: The Company

11.9.2 Lease Agreements

The Company has entered into a number of lease arrangements in connection with its business. These agreements include the company's head office, stores, maintenance centers, warehouses, and staff accommodation. The rent paid by the company under the various lease agreements depends on the location and size of the leased property. The following is a brief overview of the lease agreements entered into by the Company:

Table 11.5: Key Particulars of the lease arrangements entered into by the Company

Purpose of the lease	Number of Leases	Rent Range (per year)	Term range
Office	1	SAR 1,625,000	One year
Operating stores	22*	From SAR 350,000 to SAR 5,882,989	From 3 to 21.5 years
New stores (not yet operated)	3 stores, one store (1) in Riyadh, one store (1) in Jizan and one store (1) in Ha'il	SAR 877,600 and SAR 2,902,800	10 to 20 years
Independent maintenance center	1	SAR 110,000	5 years
Warehouses	4	From SAR 240,000 to SAR 6,604,500	From 2 to 10 years
Staff accommodations	31	From SAR 20,000 to SAR 300,000	From 1 to 5 years

Source: The Company

*Please note that there are 21 stores under operation, noting that SACO World Jeddah store is leased under two lease contracts as indicated in the table (11-7) below.

Table 11.6: The main details of the lease of the Company's head office

No	Store address	Lessor	Date of lease start	Basic term	Renewal	Rental value (SAR)	Surface Area (Square meters)
1	Olaya District, Riyadh	Talal Abu-Ghazaleh and Co.	07/10/2013G	One year ending on 06/10/2014G Renewed to 06/10/2015G	This contract has been renewed for one year beginning from the expiration date of the basic term	SAR 1,625,000 per year	2,000

Source: The Company

Table 11.7: The main details of the leases of the currently operating stores concluded by the Company

No	Store address	Lessor	Date of lease start	Term	Renewal	Rental value (SAR)	Surface Area (Square meters)
1	Takhassusi Street, Riyadh	Ibrahim bin Abdulrahman Al-Salman	01/10/2012G	Phase I: From 01/10/2012G to 30/09/2015G Phase II: 5 years from the date on which the license has been obtained from Riyadh municipality to conduct the store expansion Phase III: 5 years from the Phase II expiration date Phase IV: 5 years from the Phase III expiration date	-	Phase I: 2,600,000 per year Phase II: 3,000,000 per year Phase III: 3,200,000 per year Phase IV3,400,000 per year.	4,900
2	Al Rawdah District, Riyadh	Sulaiman Abdulaziz Al Bassam Limited Trading Co.	23/06/2009G	10 years	Automatic for five years unless a six month non-renewal notice has been provided prior to the term expiration	3.914.109 per year until 23/06/2019G 4,501,225 per year until 23/06/2024G 5,176,409 per year until 22/06/2028G	5,190
3	As Suwaidi District, Riyadh	Al Qasr Mall Company	06/12/2011G	5 years	Automatic unless a six month non-renewal notice has been provided prior to the term expiration	2,318,800 per year	4,637
4	Al-Hamra District, Riyadh	Al Ra'idah Investment Company	15/11/2009G	5 years	Automatic for five years unless a non-renewal notice has been provided prior to the term expiration, the term of this contract has been automatically renewed for further five years	1,748,890 per year	3,497
5	Al Badi'ah District, Riyadh	Abdulaziz bin Ahmed Al Masood Company	31/01/2009G	10 years	-	2,409,500 per year	4,819
6	Al Worood District, Riyadh	Mohammed Abdullah Al Majed	14/12/2011G	3 years	This contract has been renewed until 07/10/2017G	1,500,000	3,900
7	Al Farouq District, Riyadh	Kinan International Real Estate Development Co.	29/11/2008G	21.5 Hijri years expiring on 08/10/2029G	-	1,000,000 per year for the period extended until 24/10/2014G 1.052.000 per year for the second period extended until 31/08/2018G As desired by the two parties for the third period ended on 08/10/2029G	4,000
8	Al-Ghadeer District, Riyadh	Ibrahim bin Abdulrahman Al-Salman	01/01/2005G	10 years	Automatic for five years unless a non-renewal notice has been provided prior to the term expiration	3,200,000 per year, to be renewed at the same rental value	14,383

No	Store address	Lessor	Date of lease start	Term	Renewal	Rental value (SAR)	Surface Area (Square meters)
9	Al Rabie District, Riyadh	Amaken Aalia Real estate Company	15/10/2014G	15 years	-	SAR 2,756,975 per year for the first five years; SAR 3,181,125 per year for the second five years; SAR 3,605,275 per year for the last five years;	4,241
10	Buraidah	Heirs of Abdul Rahman Saleh Al Rawaf	04/12/2009G	5 years	Automatic for five years upon the lessee's request unless a six month non-renewal notice has been provided prior to the term expiration, the term of this contract has been automatically renewed for further five years	503,280 per year The annual rental value has been increased by 30% to become 654.264 per year.	2,796
11	Al-Hamra District, Jeddah	Heirs of Abdullah Taha Bakhsh	01/03/2009G	5 years	This contract was renewed on 18/05/2014G until 26/02/2020G	2,250,000 per year	2,700
12	Al Rawdah District, Jeddah	Heirs of Abdullah Taha Bakhsh	09/04/2012G	3 years	The extension of the contract term has been agreed under the letter of the owner on 23/02/2015G for two years ending on 08/04/2017G	1,717,690 per year The Lessor is not entitled to claim an increase of the rental value during the term of the contract	2,353
13	Al-Muhammadiyah District, Jeddah	Watani Trading Company	21/07/2009G	10 years	-	4,094,500 per year	10,834
14	Al-Muhammadiyah District, Jeddah*	Watani Trading Company	01/11/2014G	6 years	-	3,294,480	7,844
15	Al Zahraa District, Jeddah	Sawari Marketing and Development Group	03/07/2013G	7 years	-	3,182,020 per year	5,551
16	Al Madinah	Kinan International	04/11/2012G	5 years	-	943,015,5 per year	2,993
17	Al Khobar	Yusuf Bin Ahmed Kano Group	01/11/1994G	5 years	Automatic for five years unless a non-renewal notice has been provided by SACO prior to the term expiration, the term of this contract has been automatically renewed for further five years	1,350,000 per year	4,536
18	Jubail	Rashed Abdul Rahman Al Rashed & Sons Group	09/06/1999G	5 years	Automatic for five years unless a non-renewal notice has been provided by SACO prior to the term expiration, the term of this contract has been automatically renewed for further five years	483,865 per year	Basic area: 962 In 2008G, a 1,097 sqm expansion space has been added so the total space has become 2,059 sqm

No	Store address	Lessor	Date of lease start	Term	Renewal	Rental value (SAR)	Surface Area (Square meters)
19	Dammam	Ali bin Ibrahim Almagdawai	28/02/2001G	20 years	-	300,000 per year in the first ten years; 350,000 per year in the remaining term	A land area of 2,500 square meters
20	Al Khobar	Arabian Centers Company	05/06/2010G	15 years	-	5,882,989 per year; and it will be increased to 6,177,139 after the first three years.	12,981
21	Al-Ahsa	Eamar AL Khaleej Co.	01/11/2010G	15 years	-	1,300,000 per year	4,340
22	Yanbu	Kinan International	01/09/2010G	15 years	-	953,323,18 per year. Both parties agreed that the rate of increase is 5% every five calendar years for the term of this contract	3,289

Source: The Company

* This agreement pertains to 7,844 m2 leased under the rental and assignment agreement. this space has been added to the store as set forth in paragraph No. 12. Thus, the SACO world store- Jeddah has two leases and the total surface area of this store is 18,678 m2.

Table 11.8: The main details of the leases of the new stores which have not yet been operated, concluded by the Company

Sr.	Store address	Lessor	Contract Date	Date of lease start	Term	Renewal	Rental value (SAR)	Surface Area (Square meters)
1.	Hittin District, Riyadh	Ibrahim A. Al Salman Sons Real Estate Investment Co.	01/12/2012G	01/01/2014G	20 years	-	• Free of charge until 30/06/2015G • SAR 2,902,800 until 30/06/2016G • SAR 1,451,400 until 31/12/2016G • SAR 2,902,800 until 31/12/2018G • 2,902,800 from 01/01/2019G until 31/12/2023G; • SAR 3,144,700 per year from 01/01/2024G until 31/12/2028G • SAR 3,386,600 per year from 01/01/2029G until 31/12/2033G	4,838
2.	Al Khayyalah Mall, Jizan	Almngeoff Contracting and Maintenance	12/06/2014G	16/11/2014G	10 years	-	• SAR 877,600 for the first five years • SAR 1,316,400 for the next five years	4,388
3.	Al Fayez Center, Ha'il	Ali Abdul Wahab Al Fayez Trading Est.	04/12/2014G	Eight months after the date of receipt of the site, and it will be received no later than 01/07/2015G	10 years	Renewable for three years by mutual agreement	• SAR 1,769,250 • If the contract is renewed, the value of the increase shall not exceed 15% of the annual rental value.	5,055

Source: The Company

Table 11.9: The main details of the maintenance centers entered into by the Company*

Sr.	Store address	Lessor	Date of lease start	Term	Renewal	Rental value (SAR)	Surface Area (Square meters)
1	Riyadh	Nora Ahmed Saeed Al Jabri	08/06/2010G	5 years	-	SAR 110,000 per year	714

Source: The Company

* In addition to the Malaz Maintenance Center, the Company operates two maintenance centers within Al Qasr and Al Andalus stores, referred to in Table 11.8.

Table 11.10: The main details of the leases of the warehouses concluded by the Company

Sr.	Store address	Lessor	Date of lease start	Term	Renewal	Rental value (SAR)	Surface Area (Square meters)
1	Al Sali District, Riyadh	Al-Muhaidib Contracting Company	01/03/2010G	10 years	-	SAR 6,604,500 per year	44,030
2	Al Sali District, Riyadh*	Al-Muhaidib Contracting Company	01/03/2014G	Two years	-	SAR 949.950 per year	6.333
3	Al Sali District, Riyadh	Khaled bin Sultan bin Hamad Al-Sultan	01/03/2013G	5 years	-	SAR 1,007,000 per year The Lessor is not entitled to increase the rental value during the term of the contract	10,600
4	Al-Khumra District, Jeddah	Fahd Mohammed Ahmed Al-Amoudi	18/12/2009G	5 years, it was renewed on 25/10/2014G for five years	-	240,000 per year The Lessor is not entitled to increase the rental value during the term of the contract	2,000

Source: The Company

* This space was leased from the same lessor to be added to the Warehouse no. 1

The Company has subleased some of its own commercial spaces to third parties practicing activities non-competitive with the Company. These rents do not constitute a material part of the Company's business, so SACO intends to terminate or not renew them, so as to expand its own commercial spaces.

The Company also complies with providing adequate accommodation for employees who are allowed to stay in the Company housing units. The adequate and appropriate housing units help reduce the employees' cost of living. Employees' housing units include about 690 employees distributed over the housing units across the Kingdom. These housing units are close to the stores spread over the eastern, western and central regions. As for the rest of the Company's employees, the Company grants them a housing allowance. All housing units are furnished and equipped with services and equipment including washing machines, air conditioners, refrigerators and cooking tools. These housing units are located at a reasonable distance from the employees' work centers. The total rents incurred by the Company amounted to SAR 2.2 million, SAR 2.4 million and SAR 3.0 million for the years 2012G, 2013G and 2014G respectively.

11.10 Related Party Transactions

The Company entered into two lease agreements with the heirs of Abdullah Taha Bakhsh and one product purchase agreement with SAMACO, which are related parties as shown in the table below 11-11.

It is noteworthy that these transactions and contracts with related parties do not have adverse material effects on the Company's profits. The Company declares that, as of the date of this Prospectus, there are no agreements or transactions with related parties not mentioned herein and that there are no discussions or negotiations with related parties with regard to new or potential agreements or transactions not mentioned herein. The Company also declares that, as of the date of this Prospectus, it does not have any intention to conclude or amend any agreements or transactions with related parties mentioned herein.

The Company, its Board and shareholders confirm that all transactions with related parties have been formally and legally made and on an arms' length basis and that no related party received preferential treatment in this regard.

The contracts and transactions were disclosed Table 11.13, and approved by the General Assembly meeting held on 23/07/1435H (corresponding to 20/07/2014G). It is worth mentioning that all the transactions between the Company and related parties will be submitted for approval by the ordinary general assemblies on an annual basis and in accordance with the requirements of Paragraph (A) of Article (18) of the Corporate Governance Regulation corresponding to Article (69) of Companies Regulations.

Table 11.11: Details of the arrangements of current agreements between the Company and the Shareholders

No.	First Party	Second Party	Subject Matter :	Services and products offered under the agreements	Date of the agreements	Term	Value
1	Heirs of Abdullah Taha Bakhsh represented by Samauel Abdullah Taha Bakhsh	SACO	Lease agreement	SACO leases a store from the First Party in Jeddah	03/03/1430H (corresponding to 28/02/2009G)	5 years, this contract was renewed on 18/05/2014G until 26/02/2020G	SAR 2,250,000 per year
2	Heirs of Abdullah Taha Bakhsh represented by Samauel Abdullah Taha Bakhsh	SACO	Lease agreement	SACO leases a store from the First Party in Jeddah	17/04/1433H (corresponding to 10/03/2012G)	3 years. A two year extension ending on 08/04/2017G was approved by the owner pursuant to a letter dated 23/02/2015G	SAR 1,717,690 per year
3	SAMACO represented by Mowallad bin Mansour	SACO	Supply agreement	Swimming pools and its accessories and outdoor games	20/03/1435H corresponding to 22/01/2014G)	One year for 2014G, currently under renewal	SAR 9,505,782 is the value of the goods that are purchased by SACO form SAMACO since the beginning of the contract until 08/06/2014G

Source: The Company

*SAMACO imports some goods (swimming pools and their accessories, as well as outdoor games) to SACO which then sells them in its stores.

The Company, directors and shareholders confirm that they have complied with Articles 69 and 70 of the Companies Regulations and Article 18 of the Corporate Governance Regulations issued by the CMA with respect to the contracts concluded with the related parties as follows:

- The Company shall disclose all transactions entered and concluded by and between its employees, board members, shareholders, subsidiaries or their relatives to the board members who have no interest in the subject matter of voting. The members who have an interest in the mentioned transactions shall not participate in voting on the resolutions to be adopted in their respect.
- The Board shall annually submit these transactions and agreements to a vote by the General Assembly.

11.11 Management Agreement with Al-Hamidi Contracting Establishment Company

On 15/06/1432H (18/05/2011G), the shareholders of the Company entered into an agreement with Al-Hamidi Contracting Establishment Company, under which the shareholders accept that Al Hamidi Contracting Establishment Company shall be given 15% of the Company's net profit in exchange for the management of the Company, noting that Al-Hamidi Trading Company, which was succeeded later on by Al-Hamidi Contracting Establishment Company, was paid the same remuneration since 29/09/1986G. This agreement was terminated through a termination and settlement agreement dated on 21/03/1435H (corresponding to 22/01/2014G) under which it has been agreed that Al-Hamidi Contacting Establishment Company is given 9% of the Company's shares, so that seventy-two thousand (72,000) shares (representing 4.5% of the total capital) of the share of each of Abdul Rahman Hassan Abbas Sharbatly and Abrar International Holding Company were transferred to Al Hamidi Contracting Establishment Company on 14/05/1435H (16/03/2014G). The share of Al-Hamidi Contracting Establishment Company became 47.5% of the Company's share capital, the share of each of Abrar International Holding Company and Abdulrahman Hassan Abbas Sharbatly became 25.5% and the share of each of Khaled Mohammed Abdulaziz Al-Hamidi, Sameer Mohammed Abdulaziz Al-Hamidi and Haytham Mohammed Abdulaziz Al-Hamidi became 0.5% of the share capital of the Company. Under the terms of the termination and settlement agreement, Al-Hamidi Contracting Establishment Company pledged not to sell, mortgage or swap any of the settlement shares, for a term beginning from 14/05/1435H (corresponding to 16/03/2014G) and ending three years after the date of listing of the Company, noting that the settlement shares do not include any additional shares as watered shares resulting from the settlements shares. The termination and settlement agreement also stipulates that throughout the period beginning from 14/05/1435H (corresponding to 16/03/2014G) and ending after three years of the Company's listing date, Khaled Mohammed Abdulaziz Al-Hamidi undertakes not to resign from his position as chairman of the Company, Sameer Mohammed Abdulaziz Al-Hamidi undertakes not to resign as Chief Executive Officer of the Company, and Haytham Mohammed Abdulaziz Al-Hamidi undertakes not to resign as the Sales and Marketing Director, unless otherwise approved or required by the Board of Directors. On 03/08/1435H (corresponding to 01/06/2014G), the resignation of Khaled Mohammed Abdulaziz Al-Hamidi from his position as a chairman of the Company's board was approved by the Board.

In accordance with the provisions of the agreement, SACO terminated the payment of any administrative fees for Al-Hamidi Contracting Establishment Company as at 28/02/1435H (corresponding to 01/01/2014G) in accordance with the provisions of the termination agreement.

11.12 Intangible assets

The Company has protected its intangible assets, by registering the trademarks it holds in various categories for the purpose of protecting its intellectual property rights both inside and outside the Kingdom of Saudi Arabia. It must be noted that the competitive position of the Company depends, among others, on its ability to protect and use its intangible assets. Accordingly, its inability to protect its trademarks, or in some cases the need to take legal action to protect it, may adversely affect the Company's trademarks, which makes business more expensive and adversely affects the Company's results of operations.

SACO has no intangible assets except its brand as at the date of this Prospectus.

The following table illustrates the key details of the trademarks registered by the Company:

Table 11.12: Key details of the different trademarks registered by the Company

No.	Country	Category	Expiry Date	Registration No.	Photo
1	Kingdom of Saudi Arabia	1	24/03/1440H (corresponding to 03/12/2018G)	29/1107	ساكو SACO
2	Kingdom of Saudi Arabia	28	24/03/1440H (corresponding to 03/12/2018G)	28/1107	ساكو SACO
3	Kingdom of Saudi Arabia	37	24/03/1440H (corresponding to 03/12/2018G)	27/1107	ساكو SACO
4	Kingdom of Saudi Arabia	4	24/03/1440H (corresponding to 03/12/2018G)	36/1107	ساكو SACO
5	Kingdom of Saudi Arabia	7	24/03/1440H (corresponding to 03/12/2018G)	35/1107	ساكو SACO
6	Kingdom of Saudi Arabia	8	24/03/1440H (corresponding to 03/12/2018G)	34/1107	ساكو SACO
7	Kingdom of Saudi Arabia	28	24/03/1440H (corresponding to 03/12/2018G)	33/1107	ساكو SACO
8	Kingdom of Saudi Arabia	16	24/03/1440H (corresponding to 03/12/2018G)	32/1107	ساكو SACO

No.	Country	Category	Expiry Date	Registration No.	Photo
9	Kingdom of Saudi Arabia	3	24/03/1440H (corresponding to 03/12/2018G)	31/1107	ساكو SACO
10	Kingdom of Saudi Arabia	21	24/03/1440H (corresponding to 03/12/2018G)	30/1107	ساكو SACO
11	Kingdom of Saudi Arabia	3	03/06/1442H (corresponding to 17/01/2021G)	26/1325	serene
12	Kingdom of Saudi Arabia	6	28/02/1442H (corresponding to 16/10/2020G)	32/1281	serene
13	Kingdom of Saudi Arabia	11	28/02/1442H (corresponding to 16/10/2020G)	31/1281	serene
14	Kingdom of Saudi Arabia	20	14/04/1441H (corresponding to 12/12/2019G)	89/1215	serene
15	Kingdom of Saudi Arabia	7	14/04/1441H (corresponding to 12/12/2019G)	88/1215	serene
16	Kingdom of Saudi Arabia	18	10/06/1444H (corresponding to 03/01/2023G)	9/1531	SACODECO
17	Kingdom of Saudi Arabia	20	10/06/1444H (corresponding to 03/01/2023G)	10/1531	SACODECO
18	Kingdom of Saudi Arabia	21	10/06/1444H (corresponding to 03/01/2023G)	14/1531	SACODECO
19	Kingdom of Saudi Arabia	8	02/03/1441H (corresponding to 31/10/2019G)	39/1198	Honeybee
20	Kingdom of Saudi Arabia	21	02/03/1441H (corresponding to 31/10/2019G)	40/1198	Honeybee
21	Kingdom of Saudi Arabia	11	02/03/1441H (corresponding to 31/10/2019G)	38/1198	Honeybee

No.	Country	Category	Expiry Date	Registration No.	Photo
22	Kingdom of Saudi Arabia	7	02/03/1441H (corresponding to 31/10/2019G)	37/1198	Honeybee
23	Kingdom of Saudi Arabia	27	28/02/1442H (corresponding to 16/10/2020G)	30/1281	Honeybee
24	Kingdom of Saudi Arabia	20	28/02/1442H (corresponding to 16/10/2020G)	29/1281	Honeybee
25	Kingdom of Saudi Arabia	28	26/05/1441H (corresponding to 22/01/2020G)	85/1227	Sportex Better fitness for everyday
26	Kingdom of Saudi Arabia	11	23/01/1441H (corresponding to 23/09/2019G)	99/1183	StarTech
27	Kingdom of Saudi Arabia	8	23/01/1441H (corresponding to 23/09/2019G)	1/1184	StarTech
28	Kingdom of Saudi Arabia	9	23/01/1441H (corresponding to 23/09/2019G)	100/1183	StarTech
29	Kingdom of Saudi Arabia	11	11/07/1444H (corresponding to 02/02/2023G)	143409298	homix smart appliances
30	Kingdom of Saudi Arabia	7	11/07/1444H (corresponding to 02/02/2023G)	143409299	homix smart appliances
31	Kingdom of Saudi Arabia	21	11/07/1444H (corresponding to 02/02/2023G)	143409297	homix smart appliances
32	Kingdom of Saudi Arabia	8	11/07/1444H (corresponding to 02/02/2023G)	143409296	homix smart appliances
33	Kingdom of Saudi Arabia	24	05/01/1444H (corresponding to 03/08/2022G)	44/1473	Reve
34	Kingdom of Saudi Arabia	24	05/01/1444H (corresponding to 03/08/2022G)	43/1473	bloomzy
35	Kingdom of Saudi Arabia	27	05/01/1444H (corresponding to 03/08/2022G)	45/1473	bloomzy

No.	Country	Category	Expiry Date	Registration No.	Photo
36	Kingdom of Saudi Arabia	24	15/07/1445H (corresponding to 27/01/2024G)	1435013909	
37	Kingdom of Saudi Arabia	27	20/07/1445H (corresponding to 01/02/2024G)	1435013910	
38	Kingdom of Saudi Arabia	20	20/07/1445H (corresponding to 01/02/2024G)	1435013909	
39	Bahrain	3	27/08/1442H (corresponding to 04/10/2021G)	88692	
40	Bahrain	4	27/08/1442H (corresponding to 04/10/2021G)	88630	
41	Bahrain	7	27/08/1442H (corresponding to 04/10/2021G)	88631	
42	Bahrain	8	27/08/1442H (corresponding to 04/10/2021G)	88632	
43	Bahrain	16	27/08/1442H (corresponding to 04/10/2021G)	88633	
44	Bahrain	17	27/08/1442H (corresponding to 04/10/2021G)	88634	
45	Bahrain	21	27/08/1442H (corresponding to 04/10/2021G)	88635	
46	Bahrain	28	27/08/1442H (corresponding to 04/10/2021G)	88636	
47	Bahrain	37	27/08/1442H (corresponding to 04/10/2021G)	88637	
48	Qatar	28	18/11/1445H (corresponding to 26/05/2024G)	70646	
49	Qatar	21	18/11/1445H (corresponding to 26/05/2024G)	70645	
50	Qatar	17	18/11/1445H (corresponding to 26/05/2024G)	70644	

No.	Country	Category	Expiry Date	Registration No.	Photo
51	Qatar	8	18/11/1445H (corresponding to 26/05/2024G)	70642	
52	Qatar	7	18/11/1445H (corresponding to 26/05/2024G)	70641	
53	Qatar	4	18/11/1445H (corresponding to 26/05/2024G)	70640	
54	Qatar	3	18/11/1445H (corresponding to 26/05/2024G)	70639	
55	Qatar	1	18/11/1445H (corresponding to 26/05/2024G)	70638	
56	Qatar	16	18/11/1445H (corresponding to 26/05/2024G)	70643	

Source: The Company

11.13 Litigation

Except the lawsuits listed below, the Company confirms that it is not a party to any litigation or arbitration at the date of this Prospectus. The lawsuits mentioned below may individually or collectively have a material adverse effect on the Company's financial condition and results of operations. As per the knowledge of the members of the Board and Senior Management of the Company, the Company is not a party to any judicial, arbitral or administrative procedures threatened or expected to be brought against it. The Company is a party to the following lawsuits:

- An appeal submitted by the Company before the Board of Grievances against an administrative decision issued by the Ministry of Commerce and Industry which fined the Company five thousand Saudi Riyals (SAR 5,000), published its name, and confiscated the offending goods, for having imported a product which proved to have been partially manufactured in a prohibited country. This appeal is still pending before the Board of Grievances and the next hearing was scheduled to occur on 11/06/1436H (corresponding to 31/03/2015G).
- A claim brought against the Company by the Ministry of Commerce and Industry on 29/03/1434H (corresponding to 09/02/2013G) relating to the Company's non-compliance with the Ministry's instructions to issue invoices in Arabic. The Company has pledged to Arabize bills in a timely manner within a specific period of time and this has already been done. A decision dated 28/03/1436H (19/01/2015G) fined SACO SAR 20,000.
- A labor dispute claim filed against the Company in which the amount claimed is one hundred and eighty-five thousand and seven hundred and two Saudi riyals (SAR 185,702). The next hearing is scheduled for 12/06/1436H (corresponding to 01/04/2015G).
- A labor dispute brought against the Company requesting a transfer of sponsorship. The hearing was held on 02/12/2013G. This claim was suspended due to the issuance of a judgment against the plaintiff in another case filed by the Company against the employee who was finally found guilty of mistrust.
- A lawsuit filed against the Company before the Preliminary Commission for Settlement of Labor Disputes related to the objection by an employee to his dismissal due to his absence of more than 21 days per year. A decision has been issued on 24/01/1436H in which the plaintiff was paid an amount of SAR 17,840.
- A lawsuit filed against the Company before the Preliminary Commission for Settlement of Labor Disputes concerning the objection by an employee to a warning issued for her refusal to work. A decision was rendered on 28/10/1435H dismissing the Plaintiff's case in favor of the Company.
- A lawsuit filed against the Company before the Preliminary Commission for Settlement of Labor Disputes concerning the objection by an employee to his dismissal in accordance with Article 80 of the Labor Law. A decision was rendered on 05/11/1435H dismissing the Plaintiff's case in favor of the Company.

- A lawsuit filed by the Company against an employee before the Criminal Court, in which the Company seeks compensation from the employee in the amount of SAR 1,998,501 in addition to amounts to be determined by the Criminal Court. This case has been referred to the Amnesty Committee to check whether the offense was included in the recent Royal pardon. The Company will be notified of upcoming court hearing dates.
- A lawsuit filed by SACO against a company leasing a store that had formerly been operated by SACO under a lease agreement. The claim is for four hundred and seventy-three thousand, three hundred and ninety-six Saudi Riyals (SAR 473,396); the value of losses and damages caused by the leasing company. The next hearing is scheduled for 01/08/1436H (corresponding to 19/05/2015G).
- A lawsuit filed by SACO against another company for using a registered SACO brand "SACODECO" without the Company's consent. The court hearing will be held on 30/06/1436H (corresponding to 19/04/2015G).
- A lawsuit filed by the lessors of SACO exhibitions in the Eastern Region demanding a rent increase or vacating the premises. The next court hearing is scheduled for 01/07/1436H (corresponding to 20/04/2015G).

11.14 Description of Shares

11.14.1 Share Capital

The share capital of the Company is two hundred and forty million Saudi Riyals (SAR 240,000,000) divided into twenty four million (24,000,000) ordinary shares with a nominal value of ten Saudi Riyals (SAR 10) per share.

11.14.2 Increase of Share Capital

The Extraordinary General Meeting may, based on a reliable feasibility study and after receiving the approval of the competent authorities, resolve to increase the Company's capital once or more by issuing new shares with the same nominal value as the original shares, provided that the original capital shall have been paid up in full with due consideration to the requirements of the Companies Regulations. Such resolution shall specify the manner in which the capital shall be increased. The original Shareholders shall have pre-emptive rights to subscribe for the new cash shares. The original Shareholders shall be notified of the pre-emptive rights vested in them by a notice to be published in a daily newspaper reporting the capital increase resolution and the conditions of subscription, or by written notice to such Shareholders by registered mail. Each shareholder should declare his desire to exercise the pre-emptive right if he wishes to do so, within fifteen (15) days from the date of publication of this announcement or notification.

The new Shares shall be distributed to the original Shareholders who have expressed their desire to subscribe thereto, in proportion to the original Shares owned by them, provided that the number of Shares allotted to them shall not exceed the number of new Shares they have applied for. The remaining new Shares shall be distributed to the original Shareholders who have asked for more than their proportionate share, in proportion to the original Shares they own, provided that their total allotment does not exceed the number of new Shares they have asked for. Any remaining new Shares shall be offered for public subscription.

11.14.3 Decrease of Share Capital

The Extraordinary General Assembly may, for valid reasons and after obtaining the approval of the Ministry of Commerce and Industry and competent authorities, resolve to reduce the Company's capital if it proves to be in excess of its needs or if the Company has incurred losses. Such resolution shall not be adopted except after considering the auditor's report on the reasons for such a reduction, with due consideration to the provisions of the Companies Regulations. Such resolution shall specify the manner in which the capital shall be decreased. If the reduction of the capital is due to its being in excess of the Company's needs, then the Company's creditors must be invited to express their objection thereto within sixty (60) days from the date of publication of the reduction resolution in a daily newspaper published in the city where the Company's head office is located. Should any creditor object and present to the Company evidentiary documents within the time limit set above, then the Company shall pay such debt, if already due, or present an adequate guarantee of payment if the debt is due on a later date.

11.14.4 Shares

The shares shall be nominal shares and may not be issued at less than their nominal value. However, the shares may be issued at a value higher than their nominal value, in which case the difference in value shall be added to the statutory reserve, even if the reserve has reached its maximum limit. A Share shall be indivisible vis-à-vis the Company. In the event that a Share is owned by several persons, they shall select one person from amongst them to exercise, on their behalf, the rights pertaining to the Share, and they shall be jointly responsible for the obligations arising from the ownership of the Share.

11.14.5 Transfer of Shares

Transfer of Shares is subject to the rules and regulations applicable to companies listed on Tadawul.

11.14.6 Voting Rights

Each Shareholder shall have a vote for every share represented by him in the Conversion General Assembly. Votes at the meetings of Ordinary and Extraordinary General Assemblies shall be computed based on 1 vote for each share represented at the meeting. Members of the Board shall not vote on resolutions of an Ordinary or Extraordinary General Assembly releasing them from liability during their term. The cumulative voting method shall be applied in relation to the appointment of the members of the Board of Directors.

11.14.7 Shareholders' Rights

Under Article 108 of the Companies Regulations, a Shareholder is vested with all the rights attached to the Shares, which include in particular the right to receive a share in the profits declared for distribution, the right to a share in the Company's assets upon liquidation, the right to attend General Assemblies and participate in the deliberations and vote on the resolutions (proposed) at such meetings, the right to dispose of Shares, the right to inspect the Company's books and documents, the right to supervise the acts of the Board of Directors, the right to institute proceedings against the Directors and the right to contest the validity of the resolutions adopted at General Assemblies in accordance with the conditions and restrictions contained in the Companies Regulations. Pursuant to the provisions of the Companies Regulations, the shareholders in joint stock companies will have no right to have their Shares redeemed or repurchased by the Company.

11.14.8 Shareholder Assemblies

A duly convened General Assembly is deemed to represent all the Shareholders, and must be held in the city where the Company's head office is located. The General Assembly shall be presided over by the Chairman of the Board of Directors, or in his absence, anyone designated by him. The General assembly shall appoint a secretary for the meeting and a canvasser.

Meetings of the General Assembly may be conducted by either ordinary or extraordinary meetings.

11.14.8.1 Ordinary General Assembly

The General Assembly shall be convened by the Board of Directors. The Board of Directors shall convene a meeting of the Ordinary General Assembly if requested to do so by the Auditor or by a number of Shareholders representing at least 5% of the Company's share capital.

The invitation to the Ordinary General Assembly should be published in the Official Gazette and a local newspaper that is distributed in the city where the Company's head office is located, at least twenty five (25) days prior to the meeting date.

Except for matters falling within the jurisdiction of the Extraordinary General Assembly, the Ordinary General Assembly shall be competent in all matters related to the Company and shall convene at least once a year within six months of the end of the Company's fiscal year. Other Ordinary General Assembly meetings may be called where necessary.

The Ordinary General Meeting shall not be quorate unless attended by shareholders representing at least 50% of the Company's share capital. If such quorum cannot be attained at the first meeting, a second meeting shall be called for, to be held within the next thirty days following the previous meeting. The invitation should be published in the Official Gazette and a local newspaper that is distributed in the city where the Company's head office is located, at least twenty five (25) days prior to the meeting date. The second meeting shall be valid irrespective of the number of shares represented at the meeting.

11.14.8.2 Extra-Ordinary General Assembly

The Extra-Ordinary General Assembly shall be convened by the Board of Directors.

The invitation to the Extra-Ordinary General Assembly should be published in the Official Gazette and a local newspaper that is distributed in the city where the Company's head office is located, at least twenty five (25) days prior to the meeting date.

The Extra-Ordinary General Assembly shall be competent in amending the Company's By-Laws except the provisions restricted by law. It also has the right to adopt resolutions in relation to matters falling with the competence of the Ordinary General Assembly and subject to conditions applicable for such assembly.

The Extra-Ordinary General Meeting shall not be quorate unless attended by shareholders representing at least 50% of the Company's share capital. If such quorum cannot be attained at the first meeting, a second meeting shall be called for, to be held within the next thirty days following the previous meeting. The invitation should be published in the Official Gazette and a local newspaper that is distributed in the city where the Company's head office is located, at least twenty five (25) days prior to the meeting date. The second meeting shall be valid if attended by a number of shareholders representing at least 25% of the Company's capital..

11.14.9 Duration of the Company

The duration of the Company shall be (99) ninety-nine Gregorian years commencing on the date of issuance of the Minister of Commerce's resolution announcing the conversion of the Company. The Company's duration may always be extended by a resolution of the Extraordinary General Assembly taken at least one year prior to the expiration of that term.

11.14.10 Dissolution and Winding-up of the Company

The Company shall expire upon the expiry of its term set forth in the By-laws or upon one of the matters set forth in the Companies Regulations. Upon the expiry of the Company's term, or if it is dissolved prior to the time set for the expiry thereof, the Extraordinary General Assembly shall, based on a proposal by the Board, decide the method of liquidation, appoint one (or more) liquidator and specify their powers and fees. The powers of the Board of Directors shall cease upon the Company's expiry. However, the Board of Directors shall remain responsible for the management of the Company until the liquidators are specified. The Company's administrative departments shall maintain their powers to the extent that they do not interfere with the powers of the liquidators. In all cases, the Assembly's resolution shall be published in the Official Gazette.

12. Underwriting

The Company, the Selling Shareholders and HSBC ("Underwriter") entered into an Underwriting Agreement, under which the Underwriter agreed, in accordance with certain conditions, to fully underwrite the subscription shares amounting to 7,200,000 ordinary shares valued at SAR 70. The key terms of the Underwriting Agreement are summarized below.

12.1 Summary of the Underwriting Agreement

The terms and conditions set forth in the Underwriting Agreement are as follows:

- The Selling Shareholders undertake to the Underwriter to sell, on the allocation date, all Offer Shares to the investors or the Underwriter.
- The Underwriter undertakes to the Company and Selling Shareholders that it will, on the allocation date, purchase any of the Offer Shares that are not subscribed for, if any, in accordance with the provisions and conditions set forth in the Underwriting Agreement.

Table 12.1: Details of Underwriter and shares subscribed for

Underwriter	Number of Offer Shares Underwritten
HSBC Saudi Arabia Limited P.O. Box 9084 Riyadh 11413, Saudi Arabia Tel.: +966 (11) 299 2313 Fax: +966 (11) 299 2424 Website: www.hsbcsaudi.com E-Mail: saudiarabia@hsbc.com	7,200,000 Shares.

Source: Company

The Company has committed to meet all the provisions of the Underwriting Agreement.

12.2 Underwriting Costs

The Underwriter shall receive a fee for underwriting the Offering, representing a specific percentage of the total proceeds.

13. Expenses

The Offer Proceeds are expected to be SAR 504,000,000. After all costs and expenses related to the Offering have been deducted, amounting to SAR 19,114,916, the Net Proceeds will be paid to the Selling Shareholders on a pro rata basis, pro rata the ownership of each of them in the Subscription Shares. Expenses related to the Offering include the fees of each of the Financial Advisor, Underwriter, Legal Advisor, Financial Due Diligence Advisor and Auditor, in addition to Receiving Agents' expenses, marketing expenses, printing and distribution expenses and other related expenses.

Table 13.1: Offering Expenses

Item	Value (SAR '000)
Fees of the Financial Advisor, Lead Manager, Underwriter and other advisors	11,008
Marketing and distribution expenses	2,550
Receiving Agents	1,800
Other expenses	3,757
Total	**19,115**

Source: The Company

14. Waivers

The Company has not applied to the CMA for any waivers from any listing requirements contained in the Listing Rules.

15. Subscription Terms and Instructions

An application for admission and listing has been submitted to the CMA pursuant to the Listing Rules issued by the CMA of the Kingdom of Saudi Arabia.

All Subscribers must carefully read the subscription terms and instructions prior to completing the Subscription Application Form. Signing the Subscription Application Form and delivering it to the Receiving Agent is deemed as acceptance of the subscription terms and conditions.

15.1 Subscription for Offer Shares

The Offer will consist of 7,200,000 ordinary shares with a paid up nominal value of SAR 10 per share representing 30% of the share capital of the Company at an Offer Price of SAR 70 per share and a total value of SAR 504,000,000 million; while noting that subscription by Individual Investors and subsequent listing of Company's shares is contingent upon a successful subscription by Institutional Investors of 100% of the Offer Shares. The Offering will be cancelled if it is not fully subscribed for at this stage. The CMA may also suspend the Offer if, at any time after the Prospectus has been approved by the CMA and before listing of the new shares, the Company becomes aware of any events that would materially and adversely impact the Company's operations.

The Offering is restricted to the following two groups of investors:

Tranche (A): Institutional Investors

This tranche includes a number of institutions including mutual funds (please see Section 1 "Terms and Definitions"). The number of Offer Shares to be allocated to Institutional Investors is seven million, two hundred thousand (7,200,000) Offer Shares representing 100% of the total number of Offer Shares. In the event that Individual Investors (defined under Tranche (B) below) subscribe for the Offer Shares, the Lead Manager may, after obtaining approval from the CMA, reduce the number of shares allocated to Institutional Investors to four million three hundred and twenty thousand (4,320,000) ordinary shares, representing 60% of the total Offer Shares. 90% of the shares of this tranche will be allocated to mutual funds, although this percentage is subject to change in the event that other institutional investors excluding the mutual funds do not subscribe for the full remaining percentage (10%) or in the event that the mutual funds do not subscribe to the full percentage allocated to them (90%).

Tranche (B): Individual Investors

This tranche includes Saudi natural persons including a Saudi female divorcee or widow from a marriage to a non-Saudi who can subscribe for Offer Shares for her own benefit, in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor children. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature has been proved to have occurred, then the regulations shall be enforced against the concerned applicant. A maximum number of two million eight hundred and eighty thousand (2,880,000) Shares representing 40% of the Offer Shares shall be allocated to Individual Investors. In the event the Individual Investors do not subscribe to all the Shares allocated to them, the Lead Manager may reduce the number of shares allocated to Individual Investors in proportion to the number of shares subscribed by them, subject to the approval of the CMA.

Bookbuilding for Institutional Investors

Institutional Investors must submit an irrevocable subscription application in order to subscribe for Offer Shares, together with a financial commitment before determination of the offering price, which will take place before the start of the offering period. Each institutional investor must specify (a) the number of Offer Shares they wish to subscribe for (no less than 100,000 allocable shares), and (b) the price at which the investor will subscribe for the Offer Shares. The subscription of Institutional Investors must begin during the subscription period, which also includes Individual Investors. Subscription must comply with the subscription terms and conditions detailed in the Subscription Application Forms provided to Institutional Investors.

Subscription by Individual Investors

Individual Investors may obtain Subscription Application Forms during the Offer Period from branches of Lead Manager and Receiving Agents or through their websites that provide this service. The value of the Shares subscribed to must be paid in full by the main Subscriber and members of his family at one of the Receiving Agent branches by debiting the main Subscriber current's account held with the Receiving Agent. No debits may be made from third-party accounts to pay the Subscription value. Changes to or withdrawal of the subscription application shall not be permitted once the Subscription Application Form has been submitted.

Individual Investors who have participated in a recent offerings may subscribe through the internet, or by telephone banking or ATM at any of the Receiving Agent branches that offer such services to their customers, provided that:

1. The Subscriber has an account with a Receiving Agent that offers such services
2. No changes have been made to the personal information of the Individual Investor since the last offering in which he participated.

A maximum number of two million eight hundred and eighty thousand (2,880,000) Shares representing 40% of the Offer Shares shall be allocated to Individual Investors. Potential investors may obtain a copy of this Prospectus in addition to the Subscription Application Form from the branches of following Receiving Agents:

SABB ساب	The Saudi British Bank (SABB) King Abdullah Road P.O. box 2907, Riyadh 11461 Kingdom of Saudi Arabia Tel.: +966 (11) 2764005 Fax: +966 (11) 2763436 Website: www.sabb.com E-Mail: sabb@sabb.com
البنك السعودي الفرنسي Banque Saudi Fransi	Banque Saudi Fransi Ma'ather Road P.O. box: 1290, Riyadh 11431 Kingdom of Saudi Arabia Tel.: +966 (11) 8744297 Fax: +966 (11) 4742455 Website: www.alfransi.com.sa E-Mail: info@alfransi.com.sa
Al Rajhi Bank مصرف الراجحي	Al-Rajhi Bank Olaya Road PO Box: 28, Riyadh 11411 Kingdom of Saudi Arabia Tel.: +966 (11) 4629922 Fax: +966 (11) 4624311 Website: www.alrajhibank.com.sa E-Mail: contactcenter1@alrajhibank.com.sa
NCB الأهلي	National Commercial Bank Ma'ather Road P.O. box 22216, Riyadh 11495 Kingdom of Saudi Arabia Tel.: +966 (11) 4787877 Fax: +966 (11) 4730417 Website: www.alahli.com E-Mail: contactus@alahli.com
بنك الرياض riyad bank	Riyad Bank King Abdul Aziz Road P.O. Box 22622, Riyadh11416 Kingdom of Saudi Arabia Tel.: +966 (11) 4013030 Fax: +966 (11) 4042618 Website: www.riyadbank.com E-Mail: customercare@riyadbank.com

SAMBA Financial Group
King Abdul Aziz Road
P.O. Box 833, Riyadh11421
Kingdom of Saudi Arabia
Tel.: +966 (11) 4774770
Fax: +966 (11) 4799402
Website: www.samba.com.sa
E-Mail: customercare@samba.com.sa

The Receiving Agents will commence receiving Subscription Application Forms at their branches throughout Saudi Arabia for 7 days from Wednesday 03/07/1436H (corresponding to 22/04/2015G) to and including the closing day on Tuesday 09/07/1436H (corresponding to 28/04/2015G). Once the Subscription Application Form is signed and submitted, the Receiving Agents will stamp it and provide the Applicant with a copy of the completed Subscription Application Form. In the event the information provided in the Subscription Application Form is incomplete or inaccurate, or not stamped by the Receiving Agent, the Subscription Application Form will be considered void.

Each Subscriber is required to specify the number of Offer Shares applied for in the Subscription Application Form, so that total subscription amount is equal to the number of Offer Shares applied for multiplied by the Offering Price of SAR 70 per Share.

Subscriptions for less than 10 Offer Shares or fractional numbers will not be accepted. Increments are to be made in multiples of 10. The maximum number of Shares to be applied for is (250,000) Offer Shares.

Subscription Application Forms should be submitted during the offering period and accompanied, where applicable, with the following documents. The Receiving Agents shall verify all copies against the originals and will return the originals to the Subscriber:

- The original and copy of the national identification card (for Individual Investor);
- Original and copy of the family identification card (for family members);
- Original and copy of the power of attorney (for family members);
- Original and copy of the power of custody (for orphans);
- Original and copy of the divorce certificate (for the children of Saudi female divorcees);
- Original and copy of the death certificate (for the children of Saudi female widows);
- Original and copy of the birth certificate (for the children of Saudi female divorcees or widows).

In the event that a Subscription Application Form is made on behalf of an applicant (parents and children only), a statement that “the person signing the application is authorized to act on behalf of the Subscriber” should be inserted in the Subscription Application Form, which shall be accompanied by a power of attorney supporting such person’s authority to act on the behalf of the Subscriber. The power of attorney must be issued before a notary public for those who are in Saudi Arabia, while those who reside abroad must legalize the power of attorney through a Saudi embassy or consulate in the relevant country where they reside outside Saudi Arabia. Receiving Agents should verify copies against originals and return the original to the Subscriber.

A consolidated subscription form should be completed for the prime Subscriber and his family members appearing on his family card if dependent Subscribers apply for the same number of Offer Shares as the prime Subscriber shall apply for. In this case:

1- All Offer Shares allocated to the Prime Subscriber and dependent Subscribers shall be registered in the Prime Subscriber’s name;

2- The Prime Subscriber will receive any refund in respect of amounts not allocated and paid for by himself or dependent Subscribers;

3- The prime Subscriber will receive all dividends distributed in respect of the Offer Shares allocated to himself and dependent Subscribers (in the event the Shares are not sold or transferred).

Separate Subscription Application Forms must be used if:

1. The Subscriber wants to register the allocated Shares in a name other than the name of the Prime Subscriber;
2. Dependent Subscriber applies for a different quantity of Offer Shares other than that of the Prime Subscriber;

3. If the wife subscribes in her name and registers the allocated shares to her account, she must complete a separate Subscription Application Form as a Prime Subscriber. In the latter case, applications made by the husbands on behalf of their spouses will be cancelled and the independent application of the wives will be processed by the Receiving Agent.

A Saudi female divorcee or widow who has minor children from a marriage to a non-Saudi husband may subscribe on behalf of those children provided she submits proof of motherhood.

During the Offering Period, only a valid Iqama will be an acceptable form of identification for non-Saudi dependents. Passports or birth certificates will not be accepted. Non Saudi dependents can only be included as dependents with their mother and cannot subscribe as Prime Subscribers. The maximum age for non-Saudi dependents to be included with their mother is 18. Any documents issued by a foreign Government must be notarized (attested) by a Saudi consulate or embassy in the relevant country.

Each Subscriber agrees to subscribe for and purchase the number of Offer Shares specified in the Subscription Application Form submitted by the Subscriber for an amount equal to the number of Shares applied for multiplied by the Offer Price of SAR 70 per Share. Each Subscriber shall have purchased the number of Offer Shares allocated to him/her upon:

1. Delivery of the Subscription Application Form to any Receiving Agents by the Applicant;
2. Payment in full by the Applicant to the Receiving Agents of the total value of Offer Shares subscribed for; and
3. Delivery to the Subscriber by the Receiving Agent of the allocation letter specifying the number of Offer Shares allocated to him/her.

The total value of the Offer Shares subscribed for must be paid in full at a branch of the Receiving Agents by depositing the relevant value into the Subscriber's account held with the Receiving Agent where the Subscription Application Form is being submitted.

If a submitted Subscription Application Form is not in compliance with the subscription terms and conditions, the Company shall have the right to reject, in full or in part, such an application. The Applicant shall accept any number of Offer Shares allocated to him / her, other than if allocated shares exceed the number of Offer Shares he has applied for.

15.2 Allocations and Refunds

The Lead Manager and Receiving Agents shall open and operate an escrow account named "Saudi Company for Hardware (SACO) - IPO Account"). Each of the Receiving Agents shall deposit all amounts received by the Subscribers into the escrow account mentioned above. The final allocation of the Offer Shares shall be in the following manner:

Allocation of Offer Shares to Individual Investors

Each Individual Investor will be allocated a minimum of ten (10) Offer Shares and a maximum of two hundred fifty thousand (250,000) Offer Shares. The remaining Offer Shares, if any, will be allocated on a pro rata basis to the total number of Offer Shares subscribed for by each Subscriber. In the event that the number of Individual Investors exceeds 288,000, the Company will not guarantee the minimum allocation Offer Shares per Subscriber equal to ten (10) Shares for each Subscriber, and the Offer Shares will be allocated equally between all Subscribers. If the number of Individual Investors exceeds 2,880,000, the allocation will be determined at the discretion of the Company and Financial Advisor. Excess subscription monies, if any, will be refunded to the Subscribers without any charge or withholding. Notification of the final allotment and refund of subscription monies, if any, will be made at the latest by 16/07/1436H (corresponding to 05/05/2015G).

Allocation of Offer Shares to Institutional Investors

After the allocation of Offer Shares to Individual Investors, the Company will allocate the Offer Shares to Institutional Investors as it deems fit, in consultation with the Institutional Investor Bookrunner, on the condition that the number of shares allocated to this tranche shall not in any way be less than 4,320,000 ordinary shares, representing 60% of the total offer shares. 90% of the shares of this Tranche will be allocated to mutual funds, such percentage is subject to amendment in the event that other institutional investors do not subscribe for all remaining ratio (10%) or in the event that the mutual funds do not fully subscribe to the percentage allocated to them (90%).

Individual Investors and Institutional Investors

Notification of final Subscriber allotment and refund of subscription monies, without any charge or withholding, is expected to be made at the latest by 16/07/1436H (corresponding to 05/05/2015G). The Company will notify the Subscribers of the date on which excess subscription monies will be refunded by publishing a notice thereto in local newspapers, and Receiving Agents will be instructed to refund any excess subscription monies.

The Receiving Agents will send confirmation/notification letters to Subscribers informing them of the final number of Offer Shares allocated together with the amounts, if any, to be refunded. The Receiving Agents will also refund to the Subscribers any monies for which no Offer Shares were allocated, as provided in the confirmation/notification letters. Such monies will be refunded without any charge or withholding and deposited into the Subscribers' accounts with the Receiving Agents. Subscribers should communicate with the branch of the Receiving Agent or agents where they submitted their Subscription Application Form for any information.

15.3 Miscellaneous

The Subscription Application Form and all related terms, conditions and covenants hereof shall be binding upon and inure to the benefit of the parties to the subscription and their respective successors, permitted assigns, executors, administrators and heirs; provided that, except as specifically contemplated herein, neither the application nor any of the rights, interests or obligations arising pursuant thereto shall be assigned or delegated by any of the parties to the subscription without the prior written consent of the other party.

These instructions, the conditions and the receipt of any Subscription Application Forms or related contracts shall be governed, construed and enforced in accordance with the laws of the Kingdom of Saudi Arabia.

The Prospectus has been released in Arabic.

15.3.1 Resolutions and Approvals under which shares are offered

The Resolutions and Approvals under which shares are offered are:

1. The Board of Directors resolution dated 23/10/1435H (corresponding to 19/08/2014G) resolving the offering of Shares.
2. The Shareholders' approval to the offering of Shares dated 24/10/1435H (corresponding to 20/08/2014G).
3. The approval of CMA to the Offer dated 05/06/1436H (corresponding to 25/03/2015G).

15.3.2 Lock-in Period

People whose names appear herein as Selling Shareholders are restricted from disposing of their shares for a period of 9 months from the date on which trading in the Offer Shares commences on the Exchange. After the restriction period has elapsed, the Selling Shareholders may only dispose of their Shares after obtaining CMA approval.

16. Acknowledgments related to the Offer, the Allocation Process and Details about the Capital Market

16.1 Acknowledgments and Declarations related to the Offer

By completing and delivering the Subscription Application Form, the Subscriber:

- agrees to subscribe in the Company for the number of Shares specified in the Subscription Application Form;
- warrants that he/she has read the Prospectus and understood all its contents;
- accepts the By-Laws of the Company and all subscription instructions and terms mentioned in the Prospectus;
- declares that neither himself nor any of his family members included in the Subscription Application Form has previously subscribed for Shares and that the Company has the right to reject all duplicate applications;
- accepts the number of shares allocated to him and all other subscription instructions and terms mentioned in the Subscription Application Form;
- declares not to cancel or amend the Subscription Application Form after submitting it to the Receiving Agents; and
- retains his/her right to sue the Company for damages caused by incorrect or incomplete information contained in the Prospectus, or by omitting major information that should have been part of the Prospectus and could affect his/her decision to purchase the Shares.

16.2 Subscription for Offer Shares

The Offering consists of 7,200,000 ordinary shares with a paid up nominal value of ten Saudi riyals (SAR 10) each at a price of SAR 70 per share, representing 30% of the Company's Share Capital. The Offering is restricted to the following groups of investors: Tranche (A) - Institutional Investors (please see Section 1 "Definitions and Terms"), and Tranche (A) – Individual Investors (please see Section 15 "Subscription Terms and Instructions" for more information).

16.3 Shares Allocation

The Receiving Agents shall open and operate escrow account named "Saudi Company for Hardware (SACO) - IPO Account"). Each of the Receiving Agents shall deposit all amounts received by the Subscribers into the escrow account mentioned above.

Notification of the final allocation and the refund of excess subscription monies, if any, will be made no later than 16/07/1436H (corresponding to 05/05/2015G).

Allocation of Offer Shares to Individual Investors

Each Individual Investor will be allocated a minimum of ten (10) Offer Shares and a maximum of two hundred fifty thousand (250,000) Offer Shares. The remaining Offer Shares, if any, will be allocated on a pro rata basis to the total number of Offer Shares subscribed for by each Subscriber. In the event that the number of Individual Investors exceeds 288,000, the Company will not guarantee the minimum allocation Offer Shares per Subscriber, and the Offer Shares will be allocated equally between all Subscribers. If the number of Individual Investors exceeds 2,880,000, the allocation will be determined at the discretion of the Company and Financial Advisor. Excess subscription monies, if any, will be refunded to the Subscribers without any charge or withholding. Notification of the final allotment and refund of subscription monies, if any, will be made at the latest by 16/07/1436H (corresponding to 05/05/2015G).

Allocation of Offer Shares to Institutional Investors

After the allocation of Offer Shares to Individual Investors, the Company will allocate the Offer Shares to Institutional Investors as it deems fit, in consultation with the Institutional Investor Bookrunner, on the condition that the number of shares allocated to this tranche shall not in any way be less than 4,320,000 ordinary shares, representing 60% of the total offer shares. 90% of the shares of this Tranche will be allocated to mutual funds, such percentage is subject to amendment in the event that other institutional investors do not subscribe for all remaining ratio (10%) or in the event that the mutual funds do not fully subscribe to the percentage allocated to them (90%).

Notification of final Subscriber allotment and refund of subscription monies, without any charge or withholding, is expected to be made at the latest by 16/07/1436H (corresponding to 05/05/2015G). The Company will notify the Subscribers of the date on which excess subscription monies will be refunded by publishing a notice thereto in local newspapers, and Receiving Agents will be instructed to refund any excess subscription monies.

The Receiving Agents will send confirmation/notification letters to Subscribers informing them of the final number of Offer Shares allocated together with the amounts, if any, to be refunded. The Receiving Agents will also refund to the Subscribers any monies for which no Offer Shares were allocated, as provided in the confirmation/notification letters. Such monies will be refunded without any charge or withholding and deposited into the Subscribers' accounts with the Receiving Agents. Subscribers should communicate with the branch of the Receiving Agent or agents where they submitted their Subscription Application Form for any information.

16.4 The Saudi Stock Exchange (Tadawul)

Tadawul was founded in 2001G as the successor to the Electronic Securities Information System. In 1990 full electronic trading in Saudi Arabia equities was introduced . Transactions take place through the automatic matching of orders. Orders are accepted and generated according to the price level. In general, market orders (orders placed at best price) are executed first, followed by orders placed at a price limit, provided that if several orders are generated at the same price, they are executed according to the time of entry.

Tadawul distributes a comprehensive range of information through various channels, in particular, the Tadawul website and Tadawul information link. The Tadawul information link makes Tadawul accessible in real time to renowned information providers such as Reuters. Exchange transactions are settled on a T+0 basis, meaning that shares ownership transfer takes place immediately after the trade transaction is executed. The Company is required to disclose all decisions and information that are of importance for the investors via Tadawul. Surveillance and monitoring of the Market is the responsibility of Tadawul to ensure fair trading and effective functioning of the Market.

16.5 Order Entry

Trading on Tadawul occurs through a fully integrated trading system covering the entire process from the trade execution to settlement. Trading occurs each business day between 11:00 am and 3:30 pm, during which orders are executed. However, other than those times, orders can be entered, amended or cancelled from 10:00 am until 11:00 am. New entries and inquiries can be made from 10:00 am of the opening session (starting at 11:00 am).

Transactions take place through the automatic matching of orders. Each valid order is accepted and generated according to the price level. In general, market orders (orders placed at best price) are executed first, followed by limit orders (orders place at a price limit), provided that if several orders are generated at the same price, they are executed according to the time of entry.

Tadawul distributes a comprehensive range of information through various channels, including in particular the Tadawul website on the Internet and Tadawul Information Link, which supplies trading data in real time to the information providers such as Reuters.

Exchange transactions are settled on a T+0 basis the same day, meaning that shares ownership transfer takes place immediately after the trade transaction is executed. The Company is required to disclose all decisions and information that are important for the investors via Tadawul. Surveillance and monitoring of the Market is the responsibility of Tadawul system in its automated capacity in which the Market functions, to ensure fair trading and smooth flow of trading in shares.

16.6 Trading on Tadawul

It is expected that dealing in the Shares will commence on Tadawul after finalization of the allocation process and the announcement of the start date of trading by Tadawul. Dates and times included in this Prospectus are indicative and may be changed or extended subject to the approval of the CMA.

Furthermore, Offer Shares can only be traded after allocated Shares have been credited to Subscribers' accounts at "Tadawul", the Company has been registered in the Official List and its Shares listed on the Exchange. Pre-trading is strictly prohibited and Subscribers entering into any pre-trading activities will be acting at their own risk. The Company shall have no legal responsibility in such event.

17. Documents Available for Inspection

The following documents are available for inspection at the head office of the Company, Hind bint Utbah street off Olaya street, Olaya, from 8:30 am to 5:00 pm from Wednesday 19/06/1436H (corresponding to 08/04/2015G) until Tuesday 09/07/1436H (corresponding to 28/04/2015G), for at least 20 days before expiry of the Offering Period:

- CMA approval to the Initial Public Offering.
- The Board of Directors resolution approving the Offering dated 23/10/1435H (corresponding to 19/08/2014G).
- Company's Commercial Registration certificate issued by MoCI.
- Shareholders resolution in relation to the conversion of the Company from a limited liability company to a joint stock company.
- HE the Minister of Commerce and Industry' Resolution No. 178/S dated 26/05/1432H (corresponding to 30/04/2011G) in relation to the conversion of the Company to a Saudi joint stock company.
- The Company's By-Laws, and amendments thereto.
- Valuation Report prepared by the Financial Advisor.
- Audited Financial Statements for the Company for the years ended 31 December 2011G, 2012G, 2013G and 2014G, and the audited reclassified Financial Statements for the years ended 31 December 2011G, 2012G and 2013G.
- Written consent from HSBC Saudi Arabia Limited to refer to them as Financial Advisor, Lead Manager, Bookrunner of Institutional Investors and Underwriter.
- Written consent from Legal Advisors - Abdulaziz I. Al Ajlan & Partners in association with Baker & McKenzie Limited to refer to them as Legal Advisor.
- Written consent from Euromonitor International Limited to refer to them as Market Consultant.
- Written consent from Ernst & Young to refer to them as Professional Financial Diligence Advisor.
- Written consent from the Auditor to include their Audit Reports in the Prospectus.
- Market report prepared by Euromonitor International Limited.
- Working Capital Report.
- Agreements and contracts with related parties.
- Underwriting Agreement.
- Agreements with the Receiving Agents.

18. Auditor's Report

This section includes the consolidated audited financial statements for financial years ended 31 December 2011G, 2012G, 2013G and 2014G. Such statements have been prepared in compliance with accounting standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA") and audited by PricewaterhouseCoopers in accordance with Accounting Standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

SAUDI COMPANY FOR HARDWARE

(A Closed Joint Stock Company)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

AND INDEPENDENT AUDITORS' REPORT

pwc

INDEPENDENT AUDITORS' REPORT February 28, 2015

To the Shareholders of Saudi Company for Hardware:
(A Saudi Closed Joint Stock Company)

Scope of audit

We have audited the accompanying balance sheet of Saudi Company for Hardware (the "Company") as of December 31, 2014 and the statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from (1) to (27) which form an integral part of the financial statements. These financial statements, which were prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, such financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Company; and

- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of financial statements.

PricewaterhouseCoopers

By:____________________
Khalid A. Mahdhar
License Number 368

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SAUDI COMPANY FOR HARDWARE

(A Closed Joint Stock Company)

Balance sheet

(All amounts in Saudi Riyals unless otherwise stated)

Assets	Notes	As at December 31,	
		2014	2013
Current assets			
Cash and cash equivalents	4	5,184,776	13,954,712
Accounts receivables	5	11,605,647	11,521,038
Inventories	6	530,430,758	417,663,768
Prepayments and other receivables	7	73,812,924	55,010,950
		621,034,105	498,150,468
Non-current assets			
Supplier patronage shares	8	8,260,452	8,260,452
Property and equipment	9	153,763,909	108,077,608
Pre-operating expenses	10	9,580,143	8,409,413
		171,604,504	124,747,473
Total assets		792,638,609	622,897,941
Liabilities			
Current liabilities			
Short-term borrowings and bank overdrafts	11	140,101,621	110,478,871
Current maturity of medium-term borrowings	11	29,089,143	27,666,576
Accounts payable	12	147,871,361	114,894,928
Accrued and other liabilities	13	39,703,923	39,530,733
Accrued zakat	14	7,857,660	4,951,409
		364,623,708	297,522,517
Non-current liabilities			
Medium-term borrowings	11	21,867,667	32,709,742
Employee termination benefits	16	27,820,798	24,352,936
		49,688,465	57,062,678
Total liabilities		414,312,173	354,585,195
Shareholders' equity			
Share capital	17	240,000,000	16,000,000
Statutory reserve	18	19,001,369	8,000,000
Retained earnings		119,325,067	244,312,746
Total shareholders› equity		378,326,436	268,312,746
Total liabilities and shareholders' equity		792,638,609	622,897,941
Commitments and contingencies	26		

The notes an integral part of these financial statements.

SAUDI COMPANY FOR HARDWARE

(A Closed Joint Stock Company)

Statement of income

(All amounts in Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31,	
		2014	2013
Sales, net and other revenues	19	1,084,846,785	961,278,298
Cost of sales and occupancy	20	(833,353,227)	(742,534,107)
Gross profit		251,493,558	218,744,191
Operating expenses			
Selling, marketing, general and administrative expenses	21	(131,371,726)	(112,250,576)
Income from operations		120,121,832	106,493,615
Other income (expenses)			
Financial charges	11	(6,195,287)	(2,427,426)
Other income	22	3,678,067	2,858,606
Income before zakat		117,604,612	106,924,795
Zakat	14	(7,590,922)	(4,182,516)
Net income for the year		110,013,690	102,742,279
Earnings per share (Saudi Riyals):	25		
Income from operations		5.01	4.44
Net income for the year		4.58	4.28
Weighted average number of shares		24,000,000	24,000,000

The notes an integral part of these financial statements.

SAUDI COMPANY FOR HARDWARE

(A Closed Joint Stock Company)

Statement of cash flows

(All amounts in Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31,	
		2014	2013
Cash flow from operating activities			
Net income for the year		110,013,690	102,742,279
Adjustments for non-cash items			
Depreciation and amortization	9,10	24,382,775	18,761,248
Provision for doubtful debts	5,21	219,343	244,500
Written off debts	5	72,035	-
Inventory written off / (back), net	21	9,434,276	(2,330,404)
Provision for slow moving items and inventory shortages	6,21	4,832,927	4,250,040
Provision for employee termination benefits	16	6,393,228	5,954,386
Loss/(gain) on disposal of property and equipment		275,796	-
Write-offs of pre-operating expenses	10	-	452,162
Changes in working capital			
Accounts receivables		(375,987)	(2,631,224)
Inventories		(128,915,921)	(102,621,605)
Prepayments and other receivables		(9,620,247)	(14,321,874)
Accounts payable		32,976,434	23,419,572
Accrued and other current liabilities		173,190	20,787,184
Accrued zakat		2,906,251	(734,808)
Employee termination benefits paid	16	(2,925,366)	(2,388,470)
Net cash generated from operating activities		49,842,424	51,582,986
Cash flow from investing activities			
Purchase of property and equipment	9	(75,491,606)	(30,569,081)
Additions to pre-operating expenses	10	(3,551,296)	-
Proceeds from disposal of property and equipment		227,300	130,079
Net cash utilized in investing activities		(78,815,602)	(30,439,002)
Cash flow from financing activities			
Changes in short-term borrowings		32,555,467	37,290,909
Proceeds from medium-term borrowings		19,616,741	46,418,035
Repayments of medium-term borrowings		(31,968,966)	(15,212,846)
Repayment of advance from shareholders		-	(38,732,905)
Dividends paid	24	-	(50,000,000)
Net cash generated from (utilized in) financing activities		20,203,242	(20,236,807)
Net change in cash and cash equivalents		(8,769,936)	907,177
Cash and cash equivalents at beginning of year		13,954,712	13,047,535
Cash and cash equivalents at end of year	4	5,184,776	13,954,712
Supplemental non-cash transactions			
Inventory transferred to receivable against insurance claims	6	1,881,727	5,551,257
Property and equipment transferred to receivable against insurance claims	9	7,300,000	3,363,065
Property and equipment transferred to pre-operating expenses	9,10	280,789	-

The notes an integral part of these financial statements.

SAUDI COMPANY FOR HARDWARE

(A Closed Joint Stock Company)

Statement of changes in shareholders' equity

(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Total
January 1, 2013		16,000,000	8,000,000	191,570,467	215,570,467
Net income for the year		-	-	102,742,279	102,742,279
Dividends	24	-	-	(50,000,000)	(50,000,000)
December 31, 2013		16,000,000	8,000,000	244,312,746	268,312,746
Net income for the year		-	-	110,013,690	110,013,690
Capital increase	17	224,000,000	-	(224,000,000)	-
Transfer to statutory reserve	18	-	11,001,369	(11,001,369)	-
December 31, 2014		240,000,000	19,001,369	119,325,067	378,326,436

The notes an integral part of these financial statements.

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Saudi Company for Hardware (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 Company is a closed joint stock company registered in the Kingdom of Saudi Arabia under commercial registration number 1010056595 issued in Riyadh on Safar 26, 1405H (November 19, 1984). The registered address of the Company is P.O. Box 86387, Riyadh 11622, Kingdom of Saudi Arabia.

The shareholders in their meeting held on February 23, 2011 resolved to convert the Company from a limited liability company to a closed joint stock company and to revise the shareholding structure. Accordingly, the Company was incorporated as a Saudi closed joint stock company pursuant to Ministry of Commerce and Industry Resolution No. 178/Q dated Jumada I 26, 1432H (corresponding to April 30, 2011). The legal formalities for such conversion and revision in shareholding were completed during the year ended December 31, 2011.

On January 22, 2014, the management agreement with Al Hamidi Contracting Establishment Company, a shareholder, has been terminated, and Al Hamidi Contracting Establishment has permanently waived its management fees starting January 1, 2014. As part of the termination agreement, additional 9% shareholding has been transferred from Abrar International Holding Company (4.5%) and Sheikh Abdulrahman Sharbatly (4.5%) to Al Hamidi Contracting Establishment as a compensation to Al Hamidi Contracting Establishment (See Note 15.2). Also see Note 17 for increase in share capital of the Company.

At December 31, 2014, the total number of stores operated by the Company in the Kingdom of Saudi Arabia were 20 owned stores and 2 franchise stores, (December 31, 2013: 19 owned stores and 2 franchise stores).

The accompanying financial statements include the accounts of the Company and its stores, operating under separate commercial registrations:

Stores	Location	Commercial registration No.
Takhassusi	Riyadh	1010056595
Woroud	Riyadh	1010065245
Hamra	Riyadh	1010154852
Badiaa	Riyadh	1010276497
Rimal	Riyadh	1010289426
Khurais	Riyadh	1010144072
Al Qasr	Riyadh	1010322479
Northern Ring Road	Riyadh	1010201062
Buraydah	Qasim	1131020838
Anadlus	Jeddah	4030104324
Tahlia	Jeddah	4030061896
Prince Sultan Road	Jeddah	4030198058
Medina Branch	Medina	4650039295
Yanbu Branch	Yanbu	4700012605
Khobar Branch	Khobar	2051017997
Dammam Branch	Dammam	2050030529
Dhahran Branch	Dhahran	2052000780
Jubail Branch	Jubail	2055004380
Al Ahsa Branch	Al Ahsa	2252026146
Al Sawary Mall	Jaddah	4030268514
Workshop		
Workshop Center	Riyadh	1010293034

These financial statements were authorized for issue by the management on February 28, 2015.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with the accounting standards promulgated by the Saudi Organization for Certified Public Accountants (SOCPA).

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Critical estimates and judgments are disclosed below:

(a) Slow moving inventory items and shortages

Provision for slow moving inventories is maintained at a level considered adequate to provide for potential loss on inventory items. The level of allowance is determined and guided by the Company's policy and other factors affecting the obsolescence of inventory items. An evaluation of inventories, designed to identify potential charges to provision, is performed by the management on regular intervals. Management uses judgment based on the best available facts and circumstances including, but not limited to, evaluation of individual inventory items' age and obsolescence and its expected utilization and consumption in future. The amount and timing of recorded expenses for any period would therefore differ based on the judgments or estimates made.

(b) Cost of sale and occupancy

Management use estimates to ensure consistent basis is used to allocate charges between cost of sales and occupancy, and general, administrative, selling and marketing expenses.

(c) Estimated useful life of property and equipment

Management assesses useful lives and residual value of property and equipment on intended use of assets and the economic lives of the assets. Subsequent changes in circumstances such as technological advances could result in the actual useful lives or residual values differing from the initial estimates. Management has reviewed the residual value and useful lives of major property and equipment and determined that no adjustment is necessary.

2.3 Foreign currency translations

(a) Reporting currency

The financial statements of the Company are presented in Saudi Riyals which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which were not significant for 2014 and 2013, are recognized in the statement of income.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other short-term highly liquid investments with maturities of three months or less from the purchase date, if any.

2.5 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the statement of income and reported under "general and administrative expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "general and administrative expenses" in the statement of income.

2.6 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the moving 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.

2.7 Property and equipment

Property and equipment are carried at cost less accumulated depreciation except projects in progress which is carried at cost. Depreciation is charged to the statement of income, using straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
• Furniture and fixtures	4 - 20
• Computer hardware and software	2 - 7
• Vehicles	4
• Tools and equipment	4 - 7

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

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the statement of income.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the statement of statement of income as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

2.8 Pre-operating expenses

Pre-operating expenses consist of expenses incurred in connection with establishing new stores. Such expenses are being amortized on the straight-line basis over a period of five to seven years starting with commencement of the respective store's operations.

2.9 Supplier patronage shares

Supplier patronage shares represent long-term investment in a foreign supplier's equity redeemable shares and are carried at par value. Income on such patronage shares is recognized when the right to receive such income is established. See Note 8 for details.

2.10 Impairment of financial assets

Financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income. Impairment losses recognized on goodwill are not reversible.

2.11 Borrowings

Borrowings are recognized equivalent to the proceeds received, the interest accrued till the date of the financials. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the statement of income.

2.12 Accounts payable and accruals

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

2.13 Provisions

Provisions are recognized, when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

2.14 Zakat

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (“DZIT”). Provision for zakat for the Company is charged to the statement of income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

2.15 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees’ final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

2.16 Earnings per share

Earnings per share are calculated using the weighted average number of shares outstanding during the year.

2.17 Revenues

Retail stores’ sales are on cash basis and are being recognized when customer receives the original sales receipt. Revenues from wholesaling and sales of goods on consignment are being recognized upon delivery of goods to the customers. Revenues are shown net of discounts. Income from services is recognized when services are rendered.

2.18 Cost and Expenses

2.18.1 Cost of sales and occupancy

Represents the cost of sales incurred during the year and include the costs of goods ready for sale, direct labor and other overheads related to the sales and other revenues recognized.

2.18.2 Selling and marketing expenses

Represent expenses resulting from the Company's management efforts with regard to the marketing function or the selling and marketing function. Selling and marketing expenses include direct and indirect costs not specifically part of the cost of sales and occupancy. Allocations between selling and marketing expenses and cost of sales and occupancy, when required, are made on a consistent basis.

2.18.3 General and administrative expenses

Represent expenses relating to the administration and not to the selling or marketing and distribution functions. General and administrative expenses include direct and indirect costs not specifically part of cost of sales and occupancy, Allocations between general and administrative expenses and cost of sales and occupancy, when required, are made on a consistent basis.

2.19 Dividends

Dividends are recorded in the financial statements in the period in which they are approved by shareholders of the Company.

2.20 Operating leases

Rental expenses under operating leases are charged to the statement of income over the period of the respective lease. Rental income under sub-lease arrangements entered by the Company as a lessor is recognized on the accrual basis in accordance with the terms of the contracts.

2.21 Segment information

2.21.1 Business segment

A business segment is a group of assets, operations or entities:

1) Engaged in revenue producing activities;
2) Results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
3) Financial information is separately available.

2.21.2 Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

3 Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and fair value and cash flow interest rate risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by senior management. The most important types of risk are summarized below.

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts and other receivables, borrowings, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

A financial asset and liability is offset and net amounts reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

3.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and US dollars. As the Saudi riyal is pegged to the US dollar, the Company does not have significant exposure to currency risk.

3.2 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial positions and cash flows. The Company's interest rate risks arise mainly from its short-term and medium-term borrowings, which are at floating rate and are subject to re-pricing on a regular basis. The Company's 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.

3.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has no significant concentration of credit risks. Cash is placed with national banks with sound credit ratings. Accounts receivable are carried net of provision for doubtful debts.

3.4 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell 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 the Company's future commitments.

3.5 Fair value

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 Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and 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.

(All amounts in Saudi Riyals unless otherwise stated)

4 Cash and cash equivalents

	2014	2013
Cash in banks	4,859,842	12,758,785
Cash on hand	324,934	1,195,927
	5,184,776	13,954,712

5 Accounts receivables

	2014	2013
Trade	12,246,439	12,014,522
Less: provision for doubtful debts	(640,792)	(493,484)
	11,605,647	11,521,038

Movement in provision for doubtful debts is as follows:

	Note	2014	2013
January 1		493,484	248,984
Additions	21	219,343	244,500
Write-offs		(72,035)	-
December 31		640,792	493,484

6 Inventories

	2014	2013
Hardware merchandise: -In stores and warehouses	514,441,339	340,065,394
-On consignment	16,715,457	12,004,695
Goods in transit	22,073,876	83,560,666
	553,230,672	435,630,755
Less: provision for slow moving items and inventory shortages	(22,799,914)	(17,966,987)
	530,430,758	417,663,768

(All amounts in Saudi Riyals unless otherwise stated)

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

	Note	2014	2013
January 1		17,966,987	13,716,947
Additions	21	4,832,927	4,250,040
December 31		22,799,914	17,966,987

During 2014 and 2013, the Company has inventory write off, net amounting to Saudi Riyals 9.4 million which is recorded under general and administrative expenses (2013: Write-backs, net of Saudi Riyals 2.3 million recorded under general and administrative expenses) (See Note 21).

As mentioned in Note 26, the Company suffered losses as a result of many incidents (fire and water leakage) in its head office, Al-Ahsa Store and Badiaa Store. As a result, the Company transferred Saudi Riyals 1.9 million in 2014 (2013: Saudi Riyals 5.6 million) to receivable from insurance claims (see Note 7).

7 Prepayments and other receivables

	Note	2014	2013
Prepaid rent		15,112,534	13,977,922
Prepaid housing and school allowances		5,226,183	4,457,856
Prepaid insurance		2,232,400	964,132
Prepaid subscription		365,406	726,243
Advances to suppliers		17,970,526	14,835,867
Receivable against insurance claims	6, 9, 26	14,808,328	10,432,843
Advances to employees		3,553,001	2,345,769
Receivable against redeemed coupons		3,819,475	1,729,556
Receivable from Human Resources Development Fund related to Saudi employees		727,475	1,294,608
Sub-lease income receivable		1,616,244	817,016
Advances for fixed assets		896,303	-
Advance visa fees		606,000	160,000
Other		6,879,049	3,269,138
		73,812,924	55,010,950

(All amounts in Saudi Riyals unless otherwise stated)

8 Supplier patronage shares

	2014	2013
January 1	8,260,452	8,260,452
Adjustment	-	-
Redeemed	-	-
December 31	8,260,452	8,260,452

Supplier patronage shares represent long-term investment in a foreign supplier's equity redeemable shares and are carried at par value. Such shares, which are granted in lieu of purchases made by the Company as specified under the underlying arrangement with the supplier, are redeemable at par value and, accordingly, the balance outstanding at December 31, 2014 and 2013 approximates the fair value.

9 Property and equipment

2014	January 1, 2014	Additions	Disposals	Reclassific-ations*	December 31, 2014
Cost					
Land	-	17,768,405	-	-	17,768,405
Leasehold improvements	80,891,652	26,404,415	(52,460)	(6,994,200)	100,249,407
Furniture and fixtures	37,861,719	6,406,011	(155,425)	(8,500)	44,103,805
Computer hardware and software	33,986,421	7,992,051	(6,190)	8,500	41,980,782
Vehicles	5,802,000	635,578	-	-	6,437,578
Tools and equipment	12,084,819	4,912,252	(127,500)	-	16,869,571
Projects-in-progress	950,976	11,372,894	(274,894)	(586,589)	11,462,387
Total	171,577,587	75,491,606	(616,469)	(7,580,789)	238,871,935
Accumulated depreciation					
Leasehold improvements	(29,001,601)	(8,672,656)	52,459	-	(37,621,798)
Furniture and fixtures	(20,401,634)	(3,489,955)	55,735	-	(23,835,854)
Computer hardware and software	(4,040,278)	(6,103,742)	5,179		(10,138,841)
Vehicles	(3,164,573)	(1,173,904)	-	-	(4,338,477)
Tools and equipment	(6,891,893)	(2,281,163)	-	-	(9,173,056)
Total	(63,499,979)	(21,721,420)	113,373	-	(85,108,026)
Property and equipment - net	108,077,608				153,763,909

Projects-in-progress at December 31, 2014 represents costs incurred towards on-going activities related to the Company's various stores.

* During the year ended December 31, 2014, the Company has classified some assets among different categories of assets as shown above due to the implementation of new ERP system. Also, the Company has reclassified an amount of Saudi Riyals 7.3 million for Projects-in-progress to receivable balances under "Prepayments and other receivable"; also it reclassified an amount of Saudi Riyals 280,789 from "Projects-in-progress" to "Pre-operating expenses".

(All amounts in Saudi Riyals unless otherwise stated)

2013	January 1, 2013	Additions	Disposals*	Reclassific-ations**	December 31, 2013
Cost					
Leasehold improvements	75,264,024	1,312,702	(1,565,197)	5,880,123	80,891,652
Furniture and fixtures	52,173,139	2,455,373	(6,074,727)	(10,692,066)	37,861,719
Computer hardware and software	15,689,380	23,647,478	(7,778,986)	2,428,549	33,986,421
Vehicles	4,700,150	1,002,100	-	99,750	5,802,000
Tools and equipment	4,712,713	1,660,491	(1,660,044)	7,371,659	12,084,819
Projects-in-progress	5,548,054	490,937	-	(5,088,015)	950,976
Total	158,087,460	30,569,081	(17,078,954)	-	171,577,587
Accumulated depreciation					
Leasehold improvements	(19,709,882)	(7,899,724)	1,034,690	(2,426,685)	(29,001,601)
Furniture and fixtures	(26,595,301)	(3,540,711)	5,202,573	4,531,805	(20,401,634)
Computer hardware and software	(9,876,922)	(1,684,900)	6,584,461	937,083	(4,040,278)
Vehicles	(1,866,068)	(1,198,759)	-	(99,746)	(3,164,573)
Tools and equipment	(2,741,355)	(1,972,167)	764,086	(2,942,457)	(6,891,893)
Total	(60,789,528)	(16,296,261)	13,585,810	-	(63,499,979)
Property and equipment - net	97,297,932				108,077,608

*The total disposals amount above includes Saudi Riyals 3.4 million which represents the net book value of the property and equipment that were damaged by the fire (See Note 26). This amount was transferred to receivable against insurance claims as part of prepayments and other receivables (Note 7).

**During the year ended December 31, 2013, the Company made certain reclassifications of assets among different categories of assets as shown above due to the implementation of new ERP system.

10 Pre-operating expenses

	2014	2013
January 1	**8,409,413**	11,326,562
Additions	**3,551,296**	-
Reclassification (Note 9)	**280,789**	-
Write-offs	**-**	(452,162)
Amortization	**(2,661,355)**	(2,464,987)
December 31	**9,580,143**	8,409,413

11 Short-term and medium-term borrowings

	2014	2013
Short-term borrowings	127,849,990	92,193,514
Bank overdrafts	12,251,631	18,285,357
Short term borrowings and bank overdrafts	140,101,621	110,478,871
Current maturity of medium-term borrowings	29,089,143	27,666,576
Total short-term borrowings	169,190,764	138,145,447
Long maturity of medium-term borrowings	21,867,667	32,709,742
	191,058,431	170,855,189

The Company has obtained borrowing facilities from various local banks. Such facilities provide for Islamic cashline, short and medium term borrowings, Islamic foreign exchange rate hedge, letters of credit and guarantee and notes payable for bills of exchange to finance working capital and capital expenditures. These facilities ,which are in form of Murabaha and Tawarroq transactions, 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 include covenants which require maintenance of certain financial ratios, restrict payments of dividends and other requirements.

The medium-term loans will be fully settled by 2018 and are classified as non-current liability.

The borrowing facilities under the agreements are guaranteed by the shareholders of the Company. The Company has total borrowing facilities of approximately Saudi Riyals 272 million (2013: Saudi Riyal 279 million). The unused credit facilities at December 31, 2014 were approximately Saudi Riyals 37.7 million (2013: Saudi Riyals 57.6 million). The carrying values of all the borrowings are denominated in Saudi Riyals.

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

Years ending December 31:	2014	2013
2014	-	22,730,479
2015	-	4,104,509
2016	9,008,694	4,104,509
2017	9,008,694	1,770,245
2018	3,850,279	-
	21,867,667	32,709,742

(All amounts in Saudi Riyals unless otherwise stated)

12 Accounts payable

	Note	2014	2013
Trade		107,727,913	70,992,818
Related parties	15	796,231	16,986,208
Non-trade (Services)		39,347,217	26,915,902
		147,871,361	114,894,928

13 Accrued and other liabilities

	2014	2013
Gift cards and vouchers	17,585,844	13,991,023
Accrued employee benefits	11,605,977	18,516,818
Accrued rent	7,967,089	4,536,120
Accrued electricity	1,241,764	989,896
Advance rent received	553,499	664,897
Others	749,750	831,979
	39,703,923	39,530,733

14 Zakat matters

Certain reclassification were made to the financial information of 2013 to agree to the zakat return filed with the DZIT.

14.1 Calculation of adjusted net income

	2014	2013
Income before zakat	117,604,612	106,924,795
Depreciation differences- per DZIT	8,269,328	2,064,734
Provisions provided during the year	11,445,498	10,660,368
Adjusted net income for the year	137,319,438	119,649,897

(All amounts in Saudi Riyals unless otherwise stated)

14.2 Components of zakat base

The significant components of the zakat base of the Company, which are subject to adjustments under zakat and income tax regulations, are as follows:

	2014	2013
Components of zakat base:		
Shareholders' equity at beginning of year	268,312,746	215,570,467
Adjusted net income for the year	137,319,438	119,649,897
Medium-term borrowings-per DZIT	33,191,741	13,447,392
Provisions at beginning of the year	39,816,006	33,133,374
Property and equipment and pre-operating expenses, net - per DZIT	(161,259,332)	(136,153,836)
Dividends paid	-	(50,000,000)
Long-term investment - supplier patronage shares	(8,260,452)	(8,260,452)
Approximate zakat base	309,120,147	187,386,842

Zakat is payable at 2.5 percent of higher of the approximate zakat base and adjusted net income.

14.3 Provision for zakat

	2014	2013
January 1	4,951,409	5,686,217
Provisions:		
For current year	7,590,922	4,182,516
Payments	(4,684,671)	(4,768,350)
Adjustments	-	(148,974)
December 31	7,857,660	4,951,409

14.4 Status of final assessments

The DZIT has finalized the zakat assessments of the Company through the years ended December 31, 2006. The Company has not received the final assessments from the DZIT for the years from 2007 to 2013.The Company filed its zakat returns through the years up to 2013.

(All amounts in Saudi Riyals unless otherwise stated)

15 Related party matters

15.1 Related party transactions

Significant transactions with related parties in the ordinary course of business included in the financial statements are summarized below:

	Notes	2014	2013
Management fees to Al Hamidi Contracting Establishment Company (Majority shareholder)	15.2, 21	-	19,662,235
Services received from the shareholders and an affiliate of a shareholder		13,090,628	4,959,190
Purchases from Saudi Arabian Marketing and Agencies Company Ltd. (sister company)		9,622,939	5,185,466
Salaries and benefits to Samir Al Hamidi (CEO)		1,085,000	1,085,000
Salaries and benefits to Khalid Al Hanidi (CAO)		915,000	-
Salaries and benefits to Haytham Al-Hamidi (COO)		822,500	-

15.2 Management fees

A percentage of the Company's annual net income was used to be paid annually as management fees to Al Hamidi Contracting Establishment Company, a shareholder, for managing the operations of the Company. Such amount used to record as part of general and administrative expenses in the statement of income (Note 21).This management agreement has been terminated by mutual agreement with the shareholder in 2014 (See Note 1).

15.3 Related party balances

Significant year end balances arising from transactions with related parties are as follows:

Payable to related parties

	Relationship	Note	2014	2013
Al Hamidi Contracting Establishment Company	Shareholder		-	16,986,208
Sameer Al Hamidi	Shareholder		1,526	-
Saudi Arabian Marketing and Agencies Company Ltd.	Sister company		794,705	-
		12	796,231	16,986,208

(All amounts in Saudi Riyals unless otherwise stated)

16 Employee termination benefits

	2014	2013
January 1	**24,352,936**	20,787,020
Provisions	**6,393,228**	5,954,386
Payments	**(2,925,366)**	(2,388,470)
December 31	**27,820,798**	24,352,936

17 Share capital

The share capital of the Company as of December 31, 2014 was comprised of 24,000,000 shares stated at Saudi Riyals 10 per share (2013:1,600,000 shares). The shareholders resolved on May 26, 2014 to increase the share capital of the Company from Saudi Riyals 16 million to Saudi Riyals 240 million through the transfer of Saudi Riyals 224 million from the retained earnings by issuing 14 bonus shares to the shareholders for each share outstanding.

The shareholding structure at December 31, 2014 and 2013 consists of the following Saudi Shareholders:

Shareholders	Shareholding	Shareholding
	2014	2013
Al Hamidi Contracting Establishment Company	47.50%	38.50%
Abrar International Holding Company	25.5%	30.00%
Abdulrahman Hassan Sharbatly	25.5%	30.00%
Khaled Mohammed Al Hamidi	0.50%	0.50%
Samir Mohammed Al Hamidi	0.50%	0.50%
Haitham Mohammed Al Hamidi	0.50%	0.50%
	100.00%	100.00%

Shareholding percentages for certain shareholders were adjusted during the year ended December 31, 2014 (See Note 1 for more details).

18 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and its By-laws, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equals 50% of its share capital. This reserve is currently not available for distribution to the shareholders of the Company.

(All amounts in Saudi Riyals unless otherwise stated)

19 Sales, net and other revenues

	Note	2014	2013
Sales, net	27	1,079,728,705	955,027,270
Other revenues	19.1	5,118,080	6,251,028
		1,084,846,785	961,278,298

19.1 Other revenues

Other revenues represent Services Department's income from delivery, installation and maintenance of items sold to customers.

20 Cost of sales and occupancy

	Note	2014	2013
Cost of goods sold	27	690,896,286	606,730,930
Salaries and other employee benefits		77,190,006	75,095,625
Rent and other leasehold expenses		52,064,002	46,341,026
Depreciation and amortization		15,572,950	14,046,335
Services expenses		6,800,624	6,115,489
Rebates received	20.1	(22,453,427)	(15,630,272)
Others		13,282,786	9,834,974
		833,353,227	742,534,107

20.1 Rebates received

Rebates received represents credit notes received from suppliers upon achieving certain sales targets agreed with the suppliers for their products.

21 Selling, marketing, general and administrative expenses

	Note	2014	2013
Salaries and other employee benefits		53,574,664	42,510,075
Management fees	1,15	-	19,662,235
Rent and other leasehold expenses		8,676,362	7,282,892
Advertising and promotion		19,090,543	14,665,294
Depreciation and amortization		8,809,825	4,714,913
Franchisee sales commission		10,479,755	8,912,970
Services expenses		10,390,764	6,834,453
Provision for slow moving items and inventory shortages	6	4,832,927	4,250,040
Inventory written off (back), net	6	9,434,276	(2,330,404)
Write-offs of pre-operating expenses		-	452,162
Provision for doubtful debts	5	219,343	244,500
Others		5,863,267	5,051,446
		131,371,726	112,250,576

Selling and marketing expenses principally comprise of advertising and promotion expenses, and franchisee sales commission.

(All amounts in Saudi Riyals unless otherwise stated)

22 Other income

	Note	2014	2013
Sub-lease rental income	22.1	1,864,190	1,098,364
Cancellation of saving points others	22.2	1,122,750	1,466,634
Other		691,127	293,608
		3,678,067	2,858,606

22.1 Sub lease rental income

Sublease rental income represents income from providing part of Company stores' space for rent.

22.2 Cancellation of saving points

Cancellation of saving points represents reversal of accruals made in prior years related to loyalty cards granted to customers that expired after two years due to non-renewal after additional three-month grace period allowed for renewal.

23 Operating leases

The Company has various operating leases for its offices, stores, employees' accommodation, vehicles and warehouses. Rental expenses for the year ended December 31, 2014 amounted to Saudi Riyals 53.5 million (2013: Saudi Riyals 46.2 million).

Future rental commitments at December 31, under these operating leases are as follows:

Year ending December 31:	2014	2013
2014	-	32,895,960
2015	42,419,493	39,674,136
2016	62,709,491	39,325,266
2017	61,961,382	39,133,897
2018	58,225,721	37,288,054
Thereafter	290,009,295	178,145,953
	515,325,382	366,463,266

Such future rental commitments have been netted by Saudi Riyals 15.1 million, which have been prepaid by the Company as of December 31, 2014 (2013: Saudi Riyals 13.9 million) (see Note 7).

Rental income recognized during the year ended December 31, 2014 is Saudi Riyals 1.9 million (2013: Saudi Riyals 1.1 million) (See Note 22).

(All amounts in Saudi Riyals unless otherwise stated)

Sublease rental income commitments with terms expiring within one year and in excess of one year as of December 31, are as follows:

Year ending December 31:	2014	2013
2014	-	1,611,071
2015	1,377,574	539,692
2016	573,624	240,587
2017	289,001	213,196
2018	61,540	-
	2,301,739	2,604,546

24 Dividends

The Company's shareholders have approved the payments of dividends amounting to Saudi Riyals 50 million during the year ended December 31, 2013. Such dividends were paid by the Company during 2013. For 2014 there were no dividends.

25 Earnings per share

Earnings per share has been computed for the years ended December 31, 2014 and 2013 by dividing the income from operations, and net income for the year over the weighted number of outstanding shares amounting to 24,000,000 shares (2013: 24,000,000 shares). Weighted average number of shares as of December 31, 2013 was adjusted retroactively to reflect the increase in the share capital in 2014 due to the transfer from retained earnings by way of issue of the bonus shares (See Note 17).

26 Commitments and contingencies

(i) The Company had outstanding letters of credit at December 31, 2014 amounting to approximately Saudi Riyals 41.8 million (2013: Saudi Riyals 50.6 million) and letters of guarantee amounting to approximately Saudi Riyals 1.6 million (2013: Saudi Riyals 0.3 million). Also, at December 31, 2014, capital commitments towards on-going activities related to the Company's various stores amounted to Saudi Riyals 5.6 million (2013: Saudi Riyals 6.7 million).

(ii) Also see Note 23 with respect to lease commitments.

(iii) During 2013, the Company suffered losses as a result of many incidents (Fire, water leakage) in number of its stores and in the Head office building. The management believes that all of the losses relating to these incidents are fully insured from the insurance company. In addition, the Company expects to recover additional amount against business interruption and other matters which cannot be estimated at this stage with the insurance company. The total amount which is expected to be collected from the insurance company amounted to Saudi Riyals 19.8 million as of December 31, 2014 (2013: Saudi Riyals 10.4 million) based on external advice from the insurance loss adjustor. Accordingly, the Company has recorded these amounts as receivable against insurance claims under prepayments and other receivables in the balance sheet. During 2014, the Company collected Saudi Riyals 5 million from the insurance company a partial payment of the receivable balance against insurance claims and the remaining receivable balance amounted to Saudi Riyals 14.8 million as of December 31, 2014 (See Note 7).

(All amounts in Saudi Riyals unless otherwise stated)

27 Segment information

2014	Sales, net	Cost of goods sold	Gross margin
Bed & bath, housewares and lighting	234,183,985	(133,553,442)	100,630,543
DIY tools, paints sundries and plumping	99,963,238	(63,477,944)	36,485,294
Hardware, storage & organization, building materials, and automotive	135,077,473	(74,029,053)	61,048,420
Lawn & garden, outdoor living and furniture	274,351,706	(164,020,446)	110,331,260
Electrical appliances and sporting goods	257,474,644	(203,335,951)	54,138,694
Other	78,677,659	(52,479,450)	26,198,209
Totals	1,079,728,705	(690,896,286)	388,832,420

2013	Sales, net	Cost of goods sold	Gross margin
Bed & bath, housewares and lighting	189,257,004	(113,038,530)	76,218,474
DIY tools, paints sundries and plumping	137,735,420	(84,465,670)	53,269,750
Hardware, storage & organization, building materials, and automotive	145,509,527	(80,910,222)	64,599,305
Lawn & garden, outdoor living and furniture	169,710,356	(100,500,082)	69,210,274
Electrical appliances and sporting goods	225,663,514	(171,216,791)	54,446,723
Other	87,151,449	(56,599,635)	30,551,813
Totals	955,027,270	(606,730,930)	348,296,339

The Company does not distinguish financial information beyond what is disclosed above and at the level of assets and liabilities. All of the Company's operations are in the Kingdom of Saudi Arabia.

SAUDI COMPANY FOR HARDWARE

(A Closed Joint Stock Company)

SPECIAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

AND INDEPENDENT AUDITORS' REPORT

SPECIAL REPORT

INDEPENDENT AUDITORS' REPORT

June 12, 2014

To the Shareholders of Saudi Company for Hardware:
(A Saudi Closed Joint Stock Company)

Scope of audit

We have audited the accompanying balance sheet of Saudi Company for Hardware (the "Company") as of December 31, 2013 and the statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from (1) to (27) which form an integral part of the special purpose financial statements. These financial statements, which were prepared by the Company and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, such financial statements taken as a whole present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Company.

Emphasis of matter

We draw attention to Note 2.1 to the accompanying financial statements. The accompanying 2013 financial statements includes also the comparative financial information as of and for the year ended December 31, 2011 which has been presented for information purposes only and, after certain reclassifications made to conform with the presentation made in the financial statements for the years 2013 and 2012. The Company has also prepared statutory financial statements for each of the years ended December 31, 2013, 2012 and 2011 in which one year comparative financial information has been presented as required under the accounting standards generally accepted in Saudi Arabia.

PricewaterhouseCoopers

By: ______________________
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SAUDI COMPANY FOR HARDWARE

(A Closed Joint Stock Company)

Balance sheet

(All amounts in Saudi Riyals unless otherwise stated)

Assets	Notes	As at December 31,		
		2013	2012	2011
Current assets				
Cash and cash equivalents	4	13,954,712	13,047,535	14,732,015
Accounts receivables	5	11,521,038	9,134,314	11,233,955
Inventories	6	417,663,768	322,513,056	280,544,215
Prepayments and other receivables	7	55,010,950	31,774,754	30,469,919
		498,150,468	376,469,659	336,980,104
Non-current assets				
Supplier patronage shares	8	8,260,452	8,260,452	8,260,452
Property and equipment	9	108,077,608	97,297,932	90,021,415
Pre-operating expenses	10	8,409,413	11,326,562	13,367,269
		124,747,473	116,884,946	111,649,136
Total assets		622,897,941	493,354,605	448,629,240
Liabilities				
Current liabilities				
Short-term borrowings and bank overdrafts	11	110,478,871	73,187,962	81,445,095
Current maturity of medium-term borrowings	11	27,666,576	16,081,584	13,596,200
Accounts payable	12	114,894,928	91,475,356	78,256,443
Accrued and other liabilities		39,530,733	18,743,549	16,667,958
Accrued zakat	13	4,951,409	5,686,217	4,081,853
		297,522,517	205,174,668	194,047,549
Non-current liabilities				
Medium-term borrowings	11	32,709,742	13,089,545	28,331,450
Advances from shareholders	14	-	38,732,905	38,732,905
Employee termination benefits	15	24,352,936	20,787,020	18,761,783
		57,062,678	72,609,470	85,826,138
Total liabilities		354,585,195	277,784,138	279,873,687
Shareholders' equity				
Share capital	16	16,000,000	16,000,000	16,000,000
Statutory reserve	17	8,000,000	8,000,000	8,000,000
Retained earnings		244,312,746	191,570,467	144,755,553
Total shareholders› equity		268,312,746	215,570,467	168,755,553
Total liabilities and shareholders' equity		622,897,941	493,354,605	448,629,240
Commitments and contingencies	25			

The notes an integral part of these financial statements.

SAUDI COMPANY FOR HARDWARE

(A Closed Joint Stock Company)

Statement of income

(All amounts in Saudi Riyals unless otherwise stated)

	Notes	Years ended December 31,		
		2013	2012	2011
Sales and other revenues	18	961,278,298	831,084,052	672,488,515
Cost of sales and occupancy	19	(742,534,107)	(642,327,021)	(521,936,517)
Gross profit		218,744,191	188,757,031	150,551,998
Operating expenses				
Selling, marketing, general and administrative expenses	20	(112,250,576)	(104,333,491)	(90,008,167)
Income from operations		106,493,615	84,423,540	60,543,831
Other income (expenses)				
Financial charges	11	(2,427,426)	(4,518,613)	(2,917,448)
Other income	21	2,858,606	2,402,073	1,816,551
Income before zakat		106,924,795	82,307,000	59,442,934
Zakat	13	(4,182,516)	(5,492,086)	(4,250,247)
Net income for the year		102,742,279	76,814,914	55,192,687
Earnings per share (Saudi Riyals):	24			
Operating income		66.56	52.76	37.84
Non-operating loss		(2.35)	(4.75)	(3.34)
Net income for the year		64.21	48.01	34.50
Weighted average number of shares		1,600,000	1,600,000	1,600,000

The notes an integral part of these financial statements.

SAUDI COMPANY FOR HARDWARE

(A Closed Joint Stock Company)

Statement of cash flows

(All amounts in Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31,		
		2013	2012	2011
Cash flow from operating activities				
Net income for the year		102,742,279	76,814,914	55,192,687
Adjustments for non-cash items				
Depreciation and amortization	9, 10	18,761,248	16,737,032	14,079,500
Inventory written-(back)/off, net	20	(2,330,404)	8,205,656	4,854,553
Provision for slow moving items and inventory shortages	6	4,250,040	2,200,355	4,634,577
Provision for employee termination benefits	15	5,954,386	4,443,873	3,377,686
Provision for doubtful debts	5, 20	244,500	1,099,867	277,664
Supplier patronage shares		-	-	186,459
Loss/(gain) on disposal of property and equipment	21	-	(184,993)	46,074
Write-offs of pre-operating expenses	10	452,162	-	7,473
Changes in working capital				
Accounts receivables		(2,631,224)	999,774	(1,293,134)
Inventories		(102,621,605)	(52,374,852)	(69,846,331)
Prepayments and other receivables		(14,321,874)	(1,304,835)	704,871
Accounts payable		23,419,572	13,218,913	31,002,301
Accrued and other current liabilities		20,787,184	2,075,591	4,509,297
Accrued zakat		(734,808)	1,604,364	1,482,278
Employee termination benefits paid	15	(2,388,470)	(2,418,636)	(654,404)
Net cash generated from operating activities		51,582,986	71,117,023	48,561,551
Cash flow from investing activities				
Purchase of property and equipment	9	(30,569,081)	(22,409,602)	(38,570,103)
Additions to pre-operating expenses	10	-	(356,844)	(4,028,080)
Proceeds from settlement of patronage refund certificates		-	-	76,589
Proceeds from disposal of property and equipment		130,079	978,597	72,370
Net cash utilized in investing activities		(30,439,002)	(21,787,849)	(42,449,224)
Cash flow from financing activities				
Changes in short-term borrowings		37,290,909	(8,257,133)	11,151,823
Proceeds from medium-term borrowings		31,205,189	2,118,200	13,188,360
Repayments of medium-term borrowings		-	(14,874,721)	(7,152,443)
Repayment of advance to shareholders		(38,732,905)	-	-
Dividends paid	23	(50,000,000)	(30,000,000)	(15,600,000)
Net cash (utilized in) generated from financing activities		(20,236,807)	(51,013,654)	1,587,740
Net change in cash and cash equivalents		907,177	(1,684,480)	7,700,067
Cash and cash equivalents at beginning of year		13,047,535	14,732,015	7,031,948
Cash and cash equivalents at end of year		13,954,712	13,047,535	14,732,015
Supplemental non-cash transactions				
Inventory transferred to receivable against insurance claims	5,6	5,551,257	-	-
Property and equipment transferred to receivable against insurance claims	5,9	3,363,065	-	-

The notes an integral part of these financial statements.

SAUDI COMPANY FOR HARDWARE

(A Closed Joint Stock Company)

Statement of changes in shareholders' equity

(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Total
January 1, 2011		16,000,000	8,000,000	105,162,866	129,162,866
Net income for the year				55,192,687	55,192,687
Dividends paid	23			(15,600,000)	(15,600,000)
December 31, 2011		16,000,000	8,000,000	144,755,553	168,755,553
January 1, 2012		16,000,000	8,000,000	144,755,553	168,755,553
Net income for the year		-	-	76,814,914	76,814,914
Dividends paid	23	-	-	(30,000,000)	(30,000,000)
December 31, 2012		16,000,000	8,000,000	191,570,467	215,570,467
Net income for the year		-	-	102,742,279	102,742,279
Dividends paid	23	-	-	(50,000,000)	(50,000,000)
December 31, 2013		16,000,000	8,000,000	244,312,746	268,312,746

The an integral part of these financial statements.

SAUDI COMPANY FOR HARDWARE

(A Closed Joint Stock Company)

Notes to the special purpose financial statements for the year ended December 31, 2013

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Saudi Company for Hardware (the "Company") is principally engaged in retailing and wholesale of household and office supplies and appliances, construction tools and equipment, and electrical tools and hardware.

The Company is a closed joint stock company registered in the Kingdom of Saudi Arabia under commercial registration number 1010056595 issued in Riyadh on Safar 26, 1405H (November 19, 1984). The registered address of the Company is P.O. Box 86387, Riyadh 11622, Kingdom of Saudi Arabia.

As explained in Note 16, the shareholders in their meeting held on February 23, 2011 resolved to convert the Company from a limited liability company to a closed joint stock company and to revise the shareholding structure. Accordingly, the Company was incorporated as a Saudi closed joint stock company pursuant to Ministry of Commerce and Industry Resolution No. 178/Q dated Jumada I 26, 1432H (corresponding to April 30, 2011). The legal formalities for such conversion and revision in shareholding were completed during the year ended December 31, 2011.

As a consequence of the change in legal structure of the Company, the Company's By-laws specified the first fiscal period of the Company to be from the date of approval by the Ministry of Commerce and Industry (April 30, 2011) to December 31, 2012. However, the accompanying financial statements for the two years ended December 31, 2012 and 2011 were prepared to reflect the operations of the Company as the change in legal structure of the Company did not result in any change in the reporting entity.

On September 11, 2013, a fire broke out at the Company's head office and nearby store which resulted in damages to the Company's inventory and property and equipment which estimated to be in the total amount of SR 9 million this in addition to other miscellaneous expenses in the amount of SR 1.4 million incurred in the incident. Management believes that the losses are fully insured and also the Company is expecting to recover from the insurance company additional amount against business interruption which cannot be estimated at this stage. Therefore, the Company recorded a receivable balance in the amount of SR 10.4 million as part of prepayments and other receivables in the balance sheet (Note 7).

At December 31, 2013, 2012 and 2011, the total numbers of stores operated by the Company in the Kingdom of Saudi Arabia were as follows:

Year	Number of owned stores	Number of franchise stores
2013	19	2
2012	19	2
2011	18	2

(All amounts in Saudi Riyals unless otherwise stated)

The accompanying special purpose financial statements (hereinafter referred to as "financial statements") include the accounts of the Company and its stores, operating under separate commercial registrations:

Stores	Location	Commercial registration No.
Takhassusi	Riyadh	1010056595
Woroud	Riyadh	1010065245
Hamra	Riyadh	1010154852
Badiaa	Riyadh	1010276497
Rimal	Riyadh	1010289426
Khurais	Riyadh	1010144072
Al Qasr	Riyadh	1010322479
Northern Ring Road	Riyadh	1010201062
Buraydah	Qasim	1131020838
Anadlus	Jeddah	4030104324
Tahlia	Jeddah	4030061896
Prince Sultan Road	Jeddah	4030198058
Medina Branch	Medina	4650039295
Yanbu Branch	Yanbu	4700012605
Khobar Branch	Khobar	2051017997
Dammam Branch	Dammam	2050030529
Dhahran Branch	Dhahran	2052000780
Jubail Branch	Jubail	2055004380
Al Ahsa Branch	Al Ahsa	2252026146
Workshop		
Workshop Center	Riyadh	1010293034

These financial statements were authorized for issue by the Board of Directors on June 12, 2014.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with the accounting standards promulgated by the Saudi Organization for Certified Public Accountants (SOCPA).

The accompanying 2013 financial statements includes also the comparative financial information as of and for the year ended December 31, 2011 which has been presented for information purposes only and, after certain reclassifications made to conform with the presentation made in the financial statements for the years 2013 and 2012 as explained in Note 26. Such reclassifications have no impact on the retained earnings or net income as of and for the year ended December 31, 2011 and 2012. The Company has also prepared statutory financial statements for each of the years ended December 31, 2013, 2012 and 2011 in which one year comparative financial information has been presented as required under the accounting standards generally accepted in Saudi Arabia.

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

2.3 Foreign currency translations

(a) Reporting currency

The financial statements of the Company are presented in Saudi Riyals which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which were not significant for 2013, 2012 and 2011, are recognized in the statement of income.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other short-term highly liquid investments with maturities of three months or less from the purchase date, if any.

2.5 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the statement of income and reported under “general and administrative expenses”. When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against “general and administrative expenses” in the statement of income.

2.6 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the moving 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.

2.7 Property and equipment

Property and equipment are carried at cost less accumulated depreciation except projects in progress which is carried at cost. Depreciation is charged to the statement of income, using straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
Furniture and fixtures	4 - 20
Computer hardware and software	2 – 7
Vehicles	4
Tools and equipment	4 - 7

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

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the statement of income.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the statement of income as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

2.8 Pre-operating expenses

Pre-operating expenses consist of expenses incurred in connection with establishing new stores. Such expenses are being amortized on the straight-line basis over a period of five to seven years starting with commencement of the respective store's operations.

2.9 Supplier patronage shares

Supplier patronage shares represent long-term investment in a foreign supplier's equity redeemable shares and are carried at par value. Income on such patronage shares is recognized when the right to receive such income is established. See Note 8 for details.

2.10 Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than goodwill, if any, that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income.

2.11 Borrowings

Borrowings are recognized equivalent to the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the statement of income.

2.12 Accounts payable and accruals

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

2.13 Provisions

Provisions are recognized, when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

2.14 Zakat

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). Provision for zakat for the Company is charged to the statement of income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

2.15 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

2.16 Earnings per share

Earnings per share is calculated using the weighted average number of shares outstanding during the year.

2.17 Revenues

Retail stores' sales are on cash basis and are being recognized when customer receives the original sales receipt. Revenues from wholesale and sales of goods on consignment are being recognized upon delivery of goods to the customers. Revenues are shown net of discounts. Income from services is recognized when services are rendered.

2.18 Cost and Expenses

2.18.1 Cost of sales and occupancy

Represent the cost of sales and occupancy incurred during the year, and include the costs of goods ready for sale, direct labor and other overheads related to the sales and other revenues recognized.

2.18.2 Selling and marketing expenses

Represent expenses resulting from the Company's management efforts with regard to the marketing function or the selling and distribution function. Selling and marketing expenses include direct and indirect costs not specifically part of cost of sales and occupancy. Allocations between selling and marketing expenses and cost of sales and occupancy, when required, are made on a consistent basis. These expenses were immaterial and merged with general and administrative expenses.

2.18.3 General and administrative expenses

Represent expenses relating to the administration and not to the revenue earning function or the selling and distribution functions. General and administrative expenses include direct and indirect costs not specifically part of cost of sales and occupancy. Allocations between general and administrative expenses and cost of sales and occupancy, when required, are made on a consistent basis.

2.19 Dividends

Dividends are recorded in the financial statements in the period in which they are approved by shareholders of the Company.

2.20 Operating leases

Rental expenses under operating leases are charged to the statement of income over the period of the respective lease. Rental income under sub-lease arrangements entered by the Company as a lessor is recognized on the accrual basis in accordance with the terms of the contracts.

3 Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and fair value and cash flow interest rate risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by senior management. The most important types of risk are summarized below.

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts and other receivables, borrowings, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

A financial asset and liability is offset and net amounts reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

3.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and US dollars. As the Saudi riyal is pegged to the US dollar, the Company does not have significant exposure to currency risk.

3.2 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial positions and cash flows. The Company's interest rate risks arise mainly from its short-term borrowings, which are at floating rate and are subject to re-pricing on a regular basis. The Company's 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.

3.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has no significant concentration of credit risks. Cash is placed with national banks with sound credit ratings. Accounts receivable are carried net of provision for doubtful debts.

3.4 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell 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 the Company's future commitments.

3.5 Fair value

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 Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and 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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(A Closed Joint Stock Company)

Notes to the special purpose financial statements for the year ended December 31, 2013

(All amounts in Saudi Riyals unless otherwise stated)

4 Cash and cash equivalents

	2013	2012	2011
Cash in banks	12,758,785	12,696,789	14,490,651
Cash on hand	1,195,927	350,746	241,364
	13,954,712	13,047,535	14,732,015

5 Accounts receivables

	2013	2012	2011
Trade	12,014,522	9,383,298	12,296,314
Less: provision for doubtful debts	(493,484)	(248,984)	(1,062,359)
	11,521,038	9,134,314	11,233,955

Movement in provision for doubtful debts is as follows:

	Note	2013	2012	2011
January 1		248,984	1,062,359	938,824
Additions	20	244,500	1,099,867	277,664
Write-offs		-	(1,913,242)	(154,129)
December 31		493,484	248,984	1,062,359

6 Inventories

	2013	2012	2011
Hardware merchandise:			
In stores and warehouses	340,065,394	291,170,058	237,435,800
On consignment	12,004,695	9,340,371	9,540,775
Goods in transit	83,560,666	35,719,574	45,084,232
	435,630,755	336,230,003	292,060,807
Less: provision for slow moving items and inventory shortages	(17,966,987)	(13,716,947)	(11,516,592)
	417,663,768	322,513,056	280,544,215

(All amounts in Saudi Riyals unless otherwise stated)

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

	Note	2013	2012	2011
January 1		13,716,947	11,516,592	6,882,015
Additions	20	4,250,040	2,200,355	4,634,577
December 31		17,966,987	13,716,947	11,516,592

During 2013, the Company has inventory write backs, net amounting to Saudi Riyals 2.3 million which is recorded under general and administrative expenses. (2012: Write-offs net, of Saudi Riyals 8.2 million and 2011: Saudi Riyals 4.9 million recorded under general and administrative expenses).

Inventory items with the book value of SR 5.6 million were damaged by the fire (See Note 1). This amount was transferred to receivable against insurance claims as part of prepayments and other receivables (Notes 1 and 7).

7 Prepayments and other receivables

	Notes	2013	2012	2011
Prepaid rent		13,977,922	12,483,547	13,695,604
Prepaid housing and school allowances		4,457,856	2,740,659	2,327,366
Prepaid insurance		964,132	913,053	800,659
Prepaid subscription		726,243	608,225	462,168
Advances to suppliers		14,835,867	5,137,690	6,095,784
Receivable against insurance claims	1,6 & 9	10,432,843	-	-
Advances to employees		2,345,769	1,379,793	2,183,314
Receivable against redeemed coupons		1,729,556	-	1,000,000
Receivable from Human Resources Development Fund related to Saudi employees		1,294,608	4,541,124	-
Sub-lease income receivable		817,016	-	619,934
Advance visa fees		160,000	386,000	798,000
Other		3,269,138	3,584,663	2,487,090
		55,010,950	31,774,754	30,469,919

SAUDI COMPANY FOR HARDWARE

(A Closed Joint Stock Company)

Notes to the special purpose financial statements for the year ended December 31, 2013

(All amounts in Saudi Riyals unless otherwise stated)

8 Supplier patronage shares

	2013	2012	2011
January 1	**8,260,452**	8,260,452	8,523,500
Adjustment	**-**	-	(186,459)
Redeemed	**-**	-	(76,589)
December 31	**8,260,452**	8,260,452	8,260,452

Supplier patronage shares represent long-term investment in a foreign supplier's equity redeemable shares and are carried at par value. Such shares, which are granted in lieu of purchases made by the Company as specified under the underlying arrangement with the supplier, are redeemable at par value and, accordingly, the balance outstand-.ing at December 31, 2013, 2012 and 2011 approximates the fair value

9 Property and equipment

2013	January 1, 2013	Additions	Disposals*	Reclassific-ations**	December 31, 2013
Cost					
Leasehold improvements	75,264,024	1,312,702	(1,565,197)	5,880,123	80,891,652
Furniture and fixtures	52,173,139	2,455,373	(6,074,727)	(10,692,066)	37,861,719
Computer hardware and software	15,689,380	23,647,478	(7,778,986)	2,428,549	33,986,421
Vehicles	4,700,150	1,002,100	-	99,750	5,802,000
Tools and equipment	4,712,713	1,660,491	(1,660,044)	7,371,659	12,084,819
Projects-in-progress	5,548,054	490,937	-	(5,088,015)	950,976
Total	158,087,460	30,569,081	(17,078,954)	-	171,577,587
Accumulated depreciation					
Leasehold improvements	(19,709,882)	(7,899,724)	1,034,690	(2,426,685)	(29,001,601)
Furniture and fixtures	(26,595,301)	(3,540,711)	5,202,573	4,531,805	(20,401,634)
Computer hardware and software	(9,876,922)	(1,684,900)	6,584,461	937,083	(4,040,278)
Vehicles	(1,866,068)	(1,198,759)	-	(99,746)	(3,164,573)
Tools and equipment	(2,741,355)	(1,972,167)	764,086	(2,942,457)	(6,891,893)
Total	(60,789,528)	(16,296,261)	13,585,810	-	(63,499,979)
Property and equipment - net	97,297,932				108,077,608

Projects-in-progress at December 31, 2013, 2012 and 2011 represents costs incurred towards on-going activities related to the Company's various stores.

*The total disposals amount above includes SR 3.4 million which represents the book value of the property and equipment that were damaged by the fire (See Note 1). This amount was transferred to receivable against insurance claims as part of prepayments and other receivables (Notes 1 and 7).

**During 2013, due to the implementation of new ERP, the Company made certain reclassifications of assets between different categories which are being reflected above.

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Notes to the special purpose financial statements for the year ended December 31, 2013

(All amounts in Saudi Riyals unless otherwise stated)

2012	January 1, 2012	Additions	Disposals	December 31, 2012
Cost				
Leasehold improvements	68,107,175	7,156,849	-	75,264,024
Furniture and fixtures	47,015,267	5,259,551	(101,679)	52,173,139
Computer hardware and software	14,388,837	1,616,661	(316,118)	15,689,380
Vehicles	4,054,149	2,076,745	(1,430,744)	4,700,150
Tools and equipment	4,026,129	1,174,302	(487,718)	4,712,713
Projects-in-progress	422,560	5,125,494	-	5,548,054
Total	138,014,117	22,409,602	(2,336,259)	158,087,460
Accumulated depreciation				
Leasehold improvements	(13,570,480)	(6,139,402)	-	(19,709,882)
Furniture and fixtures	(22,075,029)	(4,583,175)	62,903	(26,595,301)
Computer hardware and software	(8,195,298)	(1,996,439)	314,815	(9,876,922)
Vehicles	(1,942,469)	(825,583)	901,984	(1,866,068)
Tools and equipment	(2,209,426)	(794,882)	262,953	(2,741,355)
Total	(47,992,702)	(14,339,481)	1,542,655	(60,789,528)
Property and equipment - net	90,021,415			97,297,932

2011	January 1, 2011	Additions	Disposals	Reclassific-ations**	December 31, 2011
Cost					
Leasehold improvements	43,388,514	24,323,725	-	394,936	68,107,175
Furniture and fixtures	38,621,346	9,709,188	(1,315,267)	-	47,015,267
Computer hardware and software	12,010,219	2,542,374	(163,756)	-	14,388,837
Vehicles	3,125,149	988,000	(59,000)	-	4,054,149
Tools and equipment	3,019,313	1,006,816	-	-	4,026,129
Projects-in-progress	817,496	-	-	(394,936)	422,560
Total	100,982,037	38,570,103	(1,538,023)	-	138,014,117
Accumulated depreciation					
Leasehold improvements	(8,721,238)	(4,849,242)	-	-	(13,570,480)
Furniture and fixtures	(19,438,257)	(3,858,379)	1,221,607	-	(22,075,029)
Computer hardware and software	(6,707,884)	(1,626,387)	138,973	-	(8,195,298)
Vehicles	(1,386,900)	(614,568)	58,999	-	(1,942,469)
Tools and equipment	(1,703,023)	(506,403)	-	-	(2,209,426)
Total	(37,957,302)	(11,454,979)	1,419,579	-	(47,992,702)
Property and equipment - net	63,024,735				90,021,415

10 Pre-operating expenses

	2013	2012	2011
January 1	11,326,562	13,367,269	11,971,183
Additions	-	356,844	4,028,080
Write-offs	(452,162)	-	
Amortization	(2,464,987)	(2,397,551)	(2,631,994)
December 31	8,409,413	11,326,562	13,367,269

11 Short-term and medium-term borrowings

	2013	2012	2011
Short-term borrowings	92,193,514	71,412,155	74,212,899
Bank overdrafts	18,285,357	1,775,807	7,232,196
Short term borrowings and bank overdrafts	110,478,871	73,187,962	81,445,095
Current maturity of medium-term borrowings	27,666,576	16,081,584	13,596,200
Total short-term borrowings	138,145,447	89,269,546	95,041,295
Medium-term borrowings	32,709,742	13,089,545	28,331,450
	170,855,189	102,359,091	123,372,745

The Company has obtained borrowing facilities from various commercial banks which bear financial charges at prevailing market rates based on Saudi inter-bank offer rate. Such facilities provide for overdrafts, loans, letters of credit and guarantee and notes payable for bills of exchange to finance working capital. The facility agreements include covenants which require maintenance of certain financial ratios, restrict payments of dividends and other requirements.

The medium-term loans as of December 31, 2013 will be fully settled by 2018 and therefore, are classified as non-current liability.

The borrowing facilities under the agreements are guaranteed by the shareholders of the Company. The Company has total borrowing facilities of approximately SR 279 million (2012: SR 251 million and 2011: SR 238 million). The unused credit facilities at December 31, 2013 were approximately Saudi Riyals 57.2 million (2012: Saudi Riyals 127.1 million and 2011: Saudi Riyals 82.1 million). The carrying values of all the borrowings are denominated in Saudi Riyals.

(All amounts in Saudi Riyals unless otherwise stated)

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

Years ending December 31:	2013	2012	2011
2013	-	-	14,980,349
2014	-	9,463,576	9,612,096
2015	22,730,479	3,625,969	3,739,005
2016	4,104,509	-	-
2017	4,104,509	-	-
2018	1,770,245	-	-
	32,709,742	13,089,545	28,331,450

12 Accounts payable

	Note	2013	2012	2011
Trade		70,992,818	71,030,941	63,816,856
Related party	14	16,986,208	11,233,768	5,045,448
Non-trade (Services)		26,915,902	9,210,647	9,394,139
		114,894,928	91,475,356	78,256,443

13 Zakat matters

Certain revisions were made to the financial information of 2012 and 2011 based on 2012 zakat return filed with the DZIT.

13.1 Calculation of adjusted net income

	2013	2012	2011
Net income before zakat	106,924,795	82,307,000	59,442,934
Depreciation differences- per DZIT	4,478,519	3,173,760	1,533,817
Provisions provided during the year	10,448,926	7,744,095	8,289,927
Adjusted net income for the year	121,852,240	93,224,855	69,266,678

(All amounts in Saudi Riyals unless otherwise stated)

13.2 Components of zakat base

The significant components of the zakat base of the Company, which are subject to adjustments under zakat and income tax regulations, are as follows:

	2013	2012	2011
Components of zakat base:			
Shareholders' equity at beginning of year	215,570,467	168,755,553	129,162,866
Adjusted net income for the year	121,852,240	93,224,855	69,266,678
Advances from shareholders	-	38,732,905	38,732,905
Medium-term borrowings-per DZIT	13,447,391	27,052,929	28,631,993
Provisions at beginning of the year	32,364,481	27,008,856	23,050,807
Property and equipment and pre-operating expenses, net - per DZIT	(133,176,937)	(125,780,657)	(116,302,233)
Dividends paid	(50,000,000)	(30,000,000)	(15,600,000)
Long-term investment - supplier patronage shares	(8,260,452)	(8,260,452)	(8,260,452)
Approximate zakat base	191,797,190	190,733,989	148,682,564

Zakat is payable at 2.5 percent of higher of the approximate zakat base and adjusted net income.

13.3 Provision for zakat

	2013	2012	2011
January 1	5,686,217	4,081,853	2,599,575
Provisions:			
For current year	4,182,516	5,492,086	3,773,400
Payments	(4,768,350)	(3,743,928)	(2,767,969)
Adjustments	(148,974)	(143,794)	476,847
December 31	4,951,409	5,686,217	4,081,853

13.4 Status of final assessments

The DZIT has finalized the zakat assessments of the Company through the years ended December 31, 2006. The Company filed its zakat returns through the years up to 2013.

(All amounts in Saudi Riyals unless otherwise stated)

14 Related party matters

14.1 Related party transactions

Significant transactions with related parties in the ordinary course of business included in the financial statements are summarized below:

	Notes	2013	2012	2011
Management fees to Al Hamidi Contracting Establishment Company (Majority shareholder)	14.2 & 19	19,662,235	15,061,188	10,807,031
Services received from the shareholders and an affiliate of a shareholder		4,959,190	4,873,395	4,526,846
Salaries and benefits to Samir Al Hamidi (Managing Director)		1,085,000	1,048,000	1,048,000
Services rendered to the majority shareholder		-	51,748	19,527

During 2013, Company repaid advances to shareholders amounting to SR 38.7 million which were outstanding as of December 31, 2012 and 2011.

14.2 Management fees

A percentage of the Company's annual net income is to be paid annually as management fees to Al Hamidi Contracting Establishment Company, a shareholder, for managing the operations of the Company. Such amount is recorded as part of general and administrative expenses in the statement of income (Note 20).This management agreement was terminated by mutual agreement with the shareholders in 2014 (Note 27).

14.3 Related party balances

Significant year end balances arising from transactions with related parties are as follows:

Payable to a related party

	Note	2013	2012	2011
Al Hamidi Contracting Establishment Company (shareholder)	12	16,986,208	11,233,768	5,045,448

15 Employee termination benefits

	2013	2012	2011
January 1	20,787,020	18,761,783	16,038,501
Provisions	5,954,386	4,443,873	3,377,686
Payments	(2,388,470)	(2,418,636)	(654,404)
December 31	24,352,936	20,787,020	18,761,783

(All amounts in Saudi Riyals unless otherwise stated)

16 Share capital

The share capital of the Company as of December 31, 2013, 2012 and 2011 were comprised of 1,600,000 shares stated at Saudi Riyals 10 per share.

The shareholding structure at December 31, 2013, 2012 and 2011 is as follows:

Shareholders	Nationality	Shareholding
Al Hamidi Contracting Establishment Company	Saudi	38.50%
Abrar International Holding Company	Saudi	30.00%
Sheikh Abdulrahman Sharbatly	Saudi	30.00%
Khaled Mohammed Al Hamidi	Saudi	0.50%
Samir Mohammed Al Hamidi	Saudi	0.50%
Haitham Mohammed Al Hamidi	Saudi	0.50%
		100%

On February 23, 2011, the shareholders resolved to convert the Company from a limited liability company to a closed joint stock company. In this connection, the number of shares was split and the par value of each share was reduced. Accordingly, the number of shares increased to 1,600,000 shares with a par value of Saudi Riyals 10 each. Further, the shareholders also resolved to revise their shareholding structure by including three new shareholders, who are also related to the Al Hamidi Contracting Establishment Company, a shareholder. The legal formalities for such conversion and revision in shareholding structure were completed during 2011.

17 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and its By-laws, the Company maintains a statutory reserve equal to 50% of its share capital. This reserve is currently not available for distribution to the shareholders of the Company.

18 Sales and other revenues

	Note	2013	2012	2011
Sales		955,027,270	826,038,805	668,689,799
Other revenues	18.1	6,251,028	5,045,247	3,798,716
		961,278,298	831,084,052	672,488,515

18.1 Other Revenues

Other revenue represents Services Department's income from delivery, installation and maintenance of items sold to customers.

(All amounts in Saudi Riyals unless otherwise stated)

19 Cost of Sales

	Note	2013	2012	2011
Cost of goods sold		606,730,930	526,425,837	425,758,600
Salaries and other employee benefits		75,095,625	61,201,306	48,058,192
Rent and other leasehold expenses		46,341,026	41,587,953	35,693,489
Depreciation and amortization		14,046,335	12,796,562	11,201,830
Services expenses		6,115,489	5,085,613	4,795,680
Rebates received	19.1	(15,630,272)	(9,793,891)	(7,141,084)
Others		9,834,974	5,023,641	3,569,810
		742,534,107	642,327,021	521,936,517

19.1 Rebates received

Rebates received represents credits received from suppliers upon achieving certain sales targets agreed with the suppliers for their products.

20 Selling, marketing, general and administrative expenses

	Notes	2013	2012	2011
Salaries and other employee benefits		42,510,075	30,946,839	30,370,345
Management fees	14	19,662,235	15,061,188	10,807,031
Rent and other leasehold expenses		7,282,892	6,126,013	5,946,526
Advertising and promotion		14,665,294	16,929,022	15,575,427
Depreciation and amortization		4,714,913	3,940,470	2,877,670
Franchisee sales commission		8,912,970	8,029,530	6,379,520
Services expenses		6,834,453	6,293,620	4,855,727
Provision for slow moving items and inventory shortages	6	4,250,040	2,200,355	4,634,577
Inventory written (back)/off, net		(2,330,404)	8,205,656	4,854,554
Write-offs of pre-operating expenses		452,162	-	7,473
Provision for doubtful debts	5	244,500	1,099,867	277,664
Others		5,051,446	5,500,931	3,421,653
		112,250,576	104,333,491	90,008,167

(All amounts in Saudi Riyals unless otherwise stated)

21 Other income

	Notes	2013	2012	2011
Sub-lease rental income	21.1	1,098,364	1,061,540	840,350
Cancellation of saving points	21.2	1,466,634	485,892	705,829
Gain/(Loss) on sale of property and equipment		-	184,993	(46,074)
Adjustment on supplier patronage shares		-	-	(186,459)
Other		293,608	669,648	502,905
		2,858,606	2,402,073	1,816,551

21.1 Sub lease rental income

Sublease rental income represents income from providing part of Company stores' space for rent.

21.2 Cancellation of saving points

Cancellation of saving points represents reversal of accruals made in prior years related to loyalty cards granted to customers that expired after two years due to non-renewal after additional three-month grace period allowed for renewal.

22 Operating leases

The Company has various operating leases for its offices, stores, employees' accommodation, vehicles and warehouses. Rental expenses for the year ended December 31, 2013 amounted to Saudi Riyals 46.2 million (2012: Saudi Riyals 42.3 million and 2011: Saudi Riyals 37 million).

Future rental commitments at December 31, under these operating leases are as follows:

Year ending December 31:	2013	2012	2011
2012	-	-	26,669,991
2013	-	34,327,300	40,641,149
2014	32,895,960	44,653,199	39,412,325
2015	39,674,136	36,867,866	28,814,193
2016	39,325,266	29,773,484	
Thereafter	254,567,904	271,223,624	250,244,896
	366,463,266	416,845,473	385,782,554

Such future rental commitments have been netted by Saudi Riyals 13.9 million, which have been prepaid by the Company as of December 31, 2013 (2012: Saudi Riyals 12.5 million and 2011: Saudi Riyals 13.7 million) (see Note 7).

Rental income recognized during the year ended December 31, 2013 is Saudi Riyals 1.1 million (2012: Saudi Riyals 1.1 million and 2011: Saudi Riyals 0.8 million) (See Note 21).

Sublease rental income commitments with terms expiring within one year and in excess of one year as of December 31, are as follows:

(All amounts in Saudi Riyals unless otherwise stated)

Year ending December 31:	2013	2012	2011
2012	-	-	2,076,492
2013	-	1,986,996	946,143
2014	1,611,071	533,419	360,144
2015	539,692	213,418	93,273
2016	240,587	-	-
Thereafter	213,196	-	-
	2,604,546	2,733,833	3,476,052

23 Dividends

The Company's shareholders approved the payments of dividends amounting to Saudi Riyals 50 million during the year ended December 31, 2013 (2012: Saudi Riyals 30 million and 2011: Saudi Riyals 15.6 million). Such dividends were paid by the Company during the respective years.

24 Earnings per share

Earnings per share has been computed for the year ended December 31, 2013 by dividing the income from operations, non-operating loss and net income for the year over the number of outstanding shares amounting to 1,600,000 shares (2012 and 2011: 1,600,000 shares).

25 Commitments and contingencies

(i) The Company had outstanding letters of credit at December 31, 2013 amounting to approximately Saudi Riyals 50.6 million (2012: Saudi Riyals 34.3 million and 2011: Saudi Riyals 30.6 million) and letters of guarantee amounting to approximately Saudi Riyals 0.3 million (2012: Saudi Riyals Nil and 2011: Saudi Riyals Nil). Also, at December 31, 2013, capital commitments towards on-going activities related to the Company's various stores amounted to Saudi Riyals 6.7 million.

(ii) Also see Note 22 with respect to lease commitments.

(All amounts in Saudi Riyals unless otherwise stated)

26 Reclassifications

For better presentation, the following reclassifications have been made in the comparative financial statements for the years ended December 31, 2012 and 2011 to conform to the presentation made in the financial statements for the year ended December 31, 2013.

2012	Before reclassification	After reclassification
Balance sheet		
Current assets		
Accounts receivable	22,499,396	9,134,314
Prepayments and other receivables	18,409,672	31,774,754
Income statement		
Sales and other revenues	826,038,805	831,084,052
Cost of sales and occupancy	(526,425,837)	(642,327,021)
Selling and marketing, and general and administrative expenses	(230,028,565)	(104,333,491)
Other income	17,241,210	2,402,073

2011	Before reclassification	After reclassification
Balance sheet		
Current assets		
Accounts receivable	22,949,954	11,233,955
Prepayments and other receivables	18,753,920	30,469,919
Income statement		
Sales and other revenues	668,689,799	672,488,515
Cost of sales and occupancy	(425,758,600)	(521,936,517)
Selling and marketing, and general and administrative expenses	(193,327,168)	(90,008,167)
Other income	12,756,351	1,816,551

27 Subsequent events

- On January 22, 2014, the management agreement with Al Hamidi Contracting Establishment Company, a shareholder, has been terminated, and Al Hamidi Contracting Establishment has permanently waived its management fees starting January 1, 2014. As part of the termination agreement, additional 9% shareholding will be transferred from Abrar International Holding Company (4.5%) and Sheikh Abdulrahman Sharbatly (4.5%) to Al Hamidi Contracting Establishment as compensation.

- On February 2, 2014, the Company purchased a piece of land in the amount of Saudi Riyals 17.8 million to construct a new head-office building. No significant construction activities have been started as of the date of issuance of the accompanying financial statements.

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