

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)

**THE CONDENSED INTERIM FINANCIAL STATEMENTS
AND REVIEW REPORT
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017**

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(A Saudi Joint Stock Company)
THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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**INDEPENDENT AUDITORS' REPORT
ON REVIEW OF INTERIM FINANCIAL STATEMENTS**

The Shareholders

Herfy Food Services Company

"A Saudi Joint Stock Company"

Riyadh, Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying 31 March 2017 condensed interim financial statements of Herfy Food Services Company - A Saudi Joint Stock Company ("the Company") which comprises:

- the condensed statement of financial position as at 31 March 2017;
- the condensed statement of profit or loss for the three-month period ended 31 March 2017;
- the condensed statement of comprehensive income for the three-month period ended 31 March 2017;
- the condensed statement of changes in equity for the three-month period ended 31 March 2017;
- the condensed statement of cash flows for the three-month period ended 31 March 2017; and
- the notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of interim Financial Information Performed by the Independent Auditor of the Entity" that are endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2017 condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

Date: 8 Shaban 1438

Corresponding to: 4 May 2017



SAUDI GROUP FOR ACCOUNTING & AUDITING

DAKHEEL ALI AL-DAKHEEL
LIC NO.(٩٦)

مكتب الرياض : ص.ب ١٦٩٩٤ الرمز البريدي ١١٤٧٤ هاتف ٠٦/٢٠٦٢١٢٨ (٠١١) ٤٧٧٧٧٠٦ فاكس : ٤٧٧٧٦٥٣ (٠١١)
مكتب الدمام : ص.ب ٦٧٢٠ الرمز البريدي ٣١٤٥٢ هاتف : ٨٣٤٤٩٣٦ (٠١٣) فاكس : ٨٣٤٤٨٩٥ (٠١٣)
مكتب بريدة : ص.ب ٢٥٧١ الرمز البريدي ٥١٤٦١ - هاتف : ٣٢٤٩٩٢٢ (٠١٦) فاكس : ٣٢٤٩٩٥٥ (٠١٦)
مكتب جدة : ص.ب ٢٢٧٨٨ الرمز البريدي ٢١٤١٦ هاتف ٠٢/٦٤٥١٩٨٠ / ٦٤٥١٩٥٠ فاكس : ٦٤٥٢٣٤٠ (٠١٢)
مكتب الباحة : هاتف ٧٢٥٧٦٢٥ (٠١٧) فاكس : ٧٢٧١١٢٣ (٠١٧)

Herfy Food Services Company
(A Saudi Joint Stock Company)
Condensed Interim Statement of Financial Position
As at 31 March 2017
(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Notes	31 March 2017 (Unaudited)	31 December 2016 (Audited)	1 January 2016 (Audited)
Assets				
Non-Current Assets				
Property, Plant and Equipment	4	1 011 871 626	1 001 573 372	907 086 188
Intangible Assets	5	12 527 756	4 290 017	2 991 871
Real Estate Investments	6	33 443 474	34 256 469	30 638 147
		1 057 842 856	1 040 119 858	940 716 206
Current Assets				
Inventories		105 853 600	101 762 034	108 946 148
Trade Receivables and Other Receivables		41 743 487	50 020 065	40 972 370
Prepayments		84 332 975	76 935 146	67 574 827
Cash and Bank Balances	15	99 203 526	73 225 799	22 908 312
		331 133 588	301 943 044	240 401 657
TOTAL ASSETS		1 388 976 444	1 342 062 902	1 181 117 863
EQUITY AND LIABILITIES				
EQUITY				
Share Capital	7	462 000 000	462 000 000	462 000 000
Statutory Reserve		144 239 713	138 967 946	117 218 334
Retained Earnings		249 186 890	201 740 989	146 311 222
TOTAL EQUITY		855 426 603	802 708 935	725 529 556
Liabilities				
Non-Current Liabilities				
Long Term Borrowings	8	207 979 978	238 477 661	198 749 750
Employee Benefits	9	58 109 289	59 275 627	53 268 680
		266 089 267	297 753 288	252 018 430
Current Liabilities				
Short Term Borrowings	8	122 645 674	122 076 660	87 127 034
Trade and Other Payables		130 225 842	107 376 969	105 668 604
Accrued expenses		6 541 836	5 199 828	5 191 869
Zakat	10	8 047 222	6 947 222	5 582 370
TOTAL LIABILITIES		267 460 574	241 600 679	203 569 877
		533 549 841	539 353 967	455 588 307
TOTAL EQUITY AND LIABILITIES		1 388 976 444	1 342 062 902	1 181 117 863

The accompanying notes (1) to (19) form an integral part of these Condensed Interim Financial Statements

Herfy Food Services Company
(A Saudi Joint Stock Company)
Condensed Interim Statement Of Profit Or Loss
For The Three Month Period Ended 31 March 2017
(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Notes	31 March 2017 (Unaudited)	31 March 2016 (Unaudited)
Revenue		275 011 416	283 552 937
Cost of Revenue		(188 149 556)	(198 299 644)
Gross Profit		86 861 860	85 253 293
Other Revenue	11	2 916 687	2 843 493
Selling and Distribution Expenses		(16 025 812)	(14 033 637)
General and Administration Expenses		(17 474 375)	(18 101 489)
Operating Profit		56 278 360	55 961 660
Finance Cost		(2 460 692)	(1 485 228)
Profit before zakat		53 817 668	54 476 432
Zakat	10	(1 100 000)	(1 125 000)
Profit for the period		52 717 668	53 351 432
Earnings per Share (SAR). based on Profit for the period	12		
- Basic		1.14	1.15
- Diluted		1.14	1.15

The accompanying notes (1) to (19) form an integral part of these Condensed Interim Financial Statements

Herfy Food Services Company
(A Saudi Joint Stock Company)
Condensed Interim Statement Of Comprehensive Income
For The Three Month Period Ended 31 March 2017
(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Notes	31 March 2017 (Unaudited)	31 March 2016 (Unaudited)
Profit for the period		52 717 668	53 351 432
Total Other Comprehensive Income for the period		-	-
Total Comprehensive Income for the period		<u>52 717 668</u>	<u>53 351 432</u>

The accompanying notes (1) to (19) form an integral part of these Condensed Interim Financial Statements

Herfy Food Services Company
(A Saudi Joint Stock Company)
Condensed Interim Statement of Changes In Equity
For The Three Month Period Ended 31 March 2017
(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Share Capital	statutory reserve	Retained Earnings	TOTAL EQUITY
(Audited)Balance at 1January 2016	462 000 000	117 218 334	146 311 222	725 529 556
Balance at 1January 2016(Audited)	-	-	53 351 432	53 351 432
Other Comprehensive Loss for the period	-	-	-	-
Total Comprehensive Income			53 351 432	53 351 432
Transfer to statutory reserve	-	5 360 800	(5 360 800)	-
(Unaudited)Balance at 31March 2016	462 000 000	122 579 134	194 301 854	778 880 988
(Audited)Balance at 01January 2017	462 000 000	138 967 946	201 740 989	802 708 935
Profit for the period	-	-	52 717 668	52 717 668
Other Comprehensive Income for the period	-	-	-	-
Transfer to statutory reserve	-	5 271 767	(5 271 767)	-
Balance at 31March 2017 (Unaudited)	462 000 000	144 239 713	249 186 890	855 426 603

The accompanying notes (1) to (19) form an integral part of these Condensed Interim Financial Statements

Herfy Food Services Company
(A Saudi Joint Stock Company)
Condensed Statement Of Cash Flows
For The Three Month Period Ended 31 March 2017
(All Amounts In Saudi Riyals Unless Otherwise Stated)

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	Notes	31 March 2017	31 March 2016
		(Unaudited)	(Unaudited)
Profit for the period		52 717 668	53 351 432
Depreciation and Amortization		17 239 923	21 800 346
Provision for Employee Benefits	9	3 303 270	3 240 680
Custom stock slow motion		-	(87)
on sale of property, plant and equipment(Gain)	11	-	(98 492)
Financial charges		2 460 692	1 485 223
Provision for zakat	10	1 100 000	1 125 000
		76 821 553	80 904 102
<u>Changes in</u>			
Inventories		(4 091 566)	106 724
Trade Receivables		8 276 578	(1 863 871)
Prepayments and Other Receivables		(7 397 829)	13 777 140
Accrual Expenses		1 342 008	-
Trade and Other Payables		23 467 890	(2 868 301)
Cash Used in Operating Activities		98 418 634	90 055 794
Employee Benefits Paid	9	(4 469 608)	(1 716 682)
Net Cash Generated from Operating Activities		93 949 026	88 339 112
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Additions to Property, Plant and Equipment	4	(34 962 921)	(54 520 882)
Proceeds from sale from property, plant and equipment		-	770 652
Net Cash Used In Investing Activities		(34 962 921)	(53 750 230)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in Loans		-	14 999 588
Finance Cost Paid		(3 079 708)	(1 881 610)
Repayment of loans and borrowings		(29 928 670)	(23 515 000)
Net cash flows from / (used In) financing activities		(33 008 378)	(10 397 022)
Net increase / (decrease) in cash and cash equivalents		25 977 727	24 191 860
Cash and Cash Equivalents at 01 January		73 225 799	22 908 312
Cash and Cash Equivalents at 31 March	15	99 203 526	47 100 172

The accompanying notes (1) to (19) form an Integral part of these Condensed Interim Financial Statements

1 Corporate information

HERFY Food Services Company, "Company", "HERFY" is principally engaged in establishing and operating restaurants, providing companies and others with cooked meals, production and sale of bakery and pastry products, the sale and purchase of lands for the purpose of constructing building and own use, maintain and lease stores and food store fridges.

The Company is joint stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010037702 issued to Riyadh on Jamad-ul-Awal 4,1401H (March 9,1981). The registered address of the Company is at Al Moroug District, P.O. Box 86958 Riyadh 11632, Kingdom of Saudi Arabia.

At March 31, 2017, the total number of restaurants owned and leased by the Company were 39 and 293 respectively (1 January 2016: 36 owned and 264 leased), operating in the Kingdom of Saudi Arabia under the trademark of "HERFY". The Company also operates bakeries and bakery shops "Bakeries".

During 2003, the Company established a factory in Riyadh for the production of rusks and cakes ("Rusk Factory"), which operated under commercial registration number 1010179007 issued on Jamad-ul-Awal 11, 1423H (July 20, 2002) and in accordance with industrial license number 1225/S issued on Dhul Qada 6, 1422 H (January 19, 2002). The Rusk factory commenced production in April 2003. During the year ended 31 December 2013, the Company disposed the plant and equipment relating to the Rusk factory. The production of rusks, and cakes is now being carried out from Cakes Factory. The legal formalities to transfer the license are in progress.

During 2005, the Company established a meat factory in Riyadh ("Meat Factory"), which operates under commercial registration number 1010200515 issued on Jamad -ul-Thani 16, 1425 (August 2, 2004) and in accordance with industrial license number 249 /S issued on Safar 16, 1422H (May 9, 2001). The Meat factory commenced production in October 2005.

During 2012, the Company established a cake factory in Riyadh ("Cake Factory"), which operates under commercial registration number 1010294755 issued on Shawal 20, 1431 H (September 29, 2010) and in accordance with industrial license number 11583/T issued on Shawwal 18, 1431 H (September 27,2012). The cake factory commenced production in June 2012.

The accompanying interim financial statements include the accounts of the Company's head office and aforementioned restaurants, bakeries, shops and factories.

2 BASIS OF PREPARATION

2.1 Statement of Compliance

These Condensed Interim Financial Statements ("Financial Statements") have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA"). These are the Company's first International Financial Reporting Standard (IFRS Standard) Condensed Interim Financial Statements for part of the period covered by the first IFRS annual Financial Statements and IFRS 1 First-time Adoption of International Financial Reporting Standards, as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA , has been applied. These Financial Statements do not include all of information required for full set of annual Financial Statements prepared under IFRS..

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company for the comparative periods presented is provided in note 21. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previously issued accounting standards by SOCPA in Kingdom of Saudi Arabia to the amounts reported for those periods and at the date of transition to IFRS (i.e. 01 January 2016).

2.2 Preparation of The Financial Statements

These Financial Statements have been prepared on the historical cost basis except for the following material items in the Condensed Statement of Financial Position:

- The defined benefit obligation is recognised at the present value of future obligations using the Projected Unit Credit Method.

FUNCTIONAL AND PRESENTATION CURRENCY

These Financial Statements are presented in Saudi Riyal ("SAR"), which is the Company's functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

3 Significant accounting policies

3.1 New Standards, Amendments and Standards issued and not yet effective:

New Standards, Amendment to Standards and Interpretations:

The Company has adopted, as appropriate, the following new and amended IASB Standards, effective 1 January 2017.

(1) (Amendments to IAS 7) Disclosure Initiative

The amendments require disclosures that enable users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The Company's financing activities, as disclosed in Condensed Consolidated Interim Statement of Cash Flows, represents only cash flow changes, except for finance cost paid for which non cash change is reflected in cash flow from operating activities.

Standards issued but not yet effective

Following are the new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early adopted them in preparing these Financial Statements.

(1) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. There is not going to be a significant impact on Company's revenue recognition policy.

(2) IFRS 9 Financial Instruments

IFRS 9 'Financial instruments' is effective for periods commencing on or after 1 January 2018, and covers three distinct areas. Phase 1 contains new requirements for the classification and measurement of financial assets and liabilities. Phase 2 relates to the impairment of financial assets and requires the calculation of impairment on an expected credit loss basis rather than the current incurred loss basis. Phase 3 relates to less stringent requirements for general hedge accounting. The full impact of the future adoption is currently under review.

(3) IFRS 16 Leases

IFRS 16, 'Leases' is effective for periods beginning on or after 1 January 2019. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases. The full impact of the future adoption is currently under review.

There are no other IFRS or IFRS Interpretation Committee interpretations not yet effective that would be expected to have a material impact on the Company.

3.2 Summary of significant accounting policies

The following are the principal accounting policies used in the preparation of the interim financial statements:

3.2.1 Property, Plant and Equipment

Property, Plant and Equipment are measured at cost, less accumulated depreciation and accumulated impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company and amount can be measured reliably.

Finance costs on borrowings to finance the construction of the qualifying assets are capitalized during the period of time that is required to substantially complete and prepare the qualifying asset for its intended use.

The cost less estimated residual value is depreciated on straight-line basis over the following estimated useful lives of the assets:

Buildings On owned lands	25 Years
Buildings On leased lands	the Lower of 20 years or the rent period
Plant, Machinery and Equipment	4-20 years
Furniture and Office Equipment	6-7 years
Motor Vehicles	5- 10 years

Land, Capital Work in Progress and Immature plants are not depreciated..

Capital work in progress at period end includes certain assets that have been acquired but are not ready for their intended use. These assets are transferred to relevant assets categories and are depreciated once they are available for their intended use.

The assets' residual values, useful lives and impairment indicators are reviewed at each financial year end and adjusted prospectively, if considered necessary.

3.2.2 Provisions

A provision is recognised if, as a result of past events, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

3.2.3 Zakat

Zakat is provided for in accordance with General Authority of Zakat and Tax ("GAZT") regulations. Adjustments arising from final Zakat and Foreign income tax assessments are recorded in the period in which such assessments are made.

3.2.4 Employee Benefits

Employee benefits are payable to all employees employed under the terms and conditions of the Labor Laws applicable on the Company and its subsidiaries, on termination of their employment contracts.

The Company's obligation in respect of defined benefit plan is calculated by estimating the amount of future benefits that employees have earned in current and prior periods and discounting that amount to arrive at present value.

company sets the assumptions used in determining the key elements of the costs of meeting such future obligations. These assumptions are set after consultation with the Company's actuaries and include those used to determine regular service costs and the financing elements related to the liabilities. The calculation of defined benefit obligation is performed by a qualified actuary using the projected unit credit method.

Re-measurement of defined benefit liability, which comprise of actuarial gains and losses are recognised immediately in Condensed Statement of Other Comprehensive Income. The Company determines net interest expense on the defined benefit obligation for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to then-net defined benefit, taking into account any change in the net defined benefit obligation during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in Condensed Statement of Profit or Loss.

3.2.5 Statutory Reserve

In accordance with Company's by-laws and the Regulations for Companies in Kingdom of Saudi Arabia, the Company is required to recognise a reserve comprising of 10% of its Net Income for the year. As per the by-laws the Company will cease the contribution when such reserve will reach 30% of its Share Capital.

3.2.6 Revenue Recognition

Revenue represents the fair value of the consideration received or receivable for goods sold, net of returns, trade discounts and volume rebates. Products are sold principally on a sale or return basis.

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

HERFY's revenue generating activities are as follows:

(1) Restaurants Sales

Restaurants sales are made on cash basis and are recognised on receipt basis.

(2) Factories, Bakeries and Catering services

Revenues from factories, bakeries catering services and other sales are recognised upon delivery of goods to the customer.

(3) Other Income

Rentals and Franchise income are accounted on a straight line basis over the terms of the contract and are recognised in 'Other Income'.

(4) Supplier Rebate

The supplier rebate received are recognised primarily as a deduction from cost of sales based on entitlement that has been earned up to the balance sheet date, for each relevant supplier arrangement.

3.2.7 Foreign Currencies

Transactions and balances

Transactions in foreign currencies are translated into the respective functional currencies of Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Foreign currency differences are generally recognised in statement of income.

However, foreign currency differences arising from the translation of investments classified as fair value through other comprehensive income are recognised in statement of other comprehensive income.

3.2.8 Investment property

Investment properties are measured initially at cost. Transaction costs are included in the initial measurement. The cost of a purchased investment properties comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes professional fees for legal services, property transfer taxes and other transaction costs. Subsequent to initial recognition, investment properties are recognised at cost as the fair value method of the investment property is not allowed under IFRS as adopted by SOCPA.

3.2.9 Operating Leases

Assets held under other leases are classified as operating leases and are not recognised in the Company's Condensed Statement of Financial Position. Rentals in respect of operating leases are charged to the Condensed Statement of Profit or Loss over the term of the leases.

3.2.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur.

Borrowing costs incurred before and after the date of transition (1 January 2016) for all eligible qualifying assets are capitalised.

3.2.11 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as

Intangible assets' residual values, useful lives and impairment indicators are reviewed at each financial year end and adjusted prospectively, if considered necessary.

3.2.12 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average method. Cost includes all direct manufacturing expenditure based on the normal level of activity and transportation and handling costs. Net realizable value comprises estimated selling price less further production costs to completion and appropriate selling and distribution costs. Allowance is made, where necessary, for obsolete, slow moving and defective stocks.

3.2.13 Cash and Cash Equivalents

For the purposes of the Condensed Statement of Cash Flow, cash and cash equivalents includes bank balances and deposits with original maturities of three months or less, if any. It also includes bank overdrafts which form an integral part of the Company's cash management and are likely to fluctuate from overdrawn to positive balances.

3.2.14 Impairment of Non-Financial Assets

Non-financial assets (other than inventories) are reviewed at each reporting date to identify circumstances indicating occurrence of impairment loss or reversal of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss or reversal of impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in Condensed Statement of Profit or Loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in Condensed Statement of Profit or Loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.2.15 Selling, Distribution, General and Administration Expenses

Selling, Distribution, General and Administration Expenses include direct and indirect costs not specifically part of Cost of Sales. Allocations between Cost of Sales and Selling, Distribution, General and Administration Expenses, when required, are made on a consistent basis. The Company charges the payments, other than those related to volume based rebates, made in respect of long term agreements with customers and distributors to Selling and Distribution Expenses.

3.2.16 Segmental Reporting

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

3.2.17 Use of Judgements and Estimates

The preparation of Financial Statements, in conformity with IFRS as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, requires the use of judgments, estimates and assumptions. Such estimates and assumptions may affect the balances reported for certain assets and liabilities as well as the disclosure of certain contingent assets and liabilities as at the Condensed Statement of Financial Position date. Any estimates or assumptions affecting assets and liabilities may also affect the reported revenues and expenses for the same reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Herfy Food Services Company
(A Saudi Joint Stock Company)
Notes To The Condensed Interim Financial Statements
For The Three Month Period Ended 31 March 2017
(All Amounts In Saudi Riyals Unless Otherwise Stated)

5 Intangible Assets And Software	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 January 2016 (Audited)
<u>Cost:</u>			
At the beginning of the period	8 871 538	6 836 843	5 421 206
Additions	8 528 311	2 114 816	1 512 537
Disposal	-	(80 121)	(96 900)
At the end of period	17 399 849	8 871 538	6 836 843
<u>Amortization</u>			
At the beginning of the period	4 581 521	3 844 972	3 390 238
Depreciation for the period	290 572	750 166	533 356
Disposal	-	(13 617)	(78 622)
At the end of period	4 872 093	4 581 521	3 844 972
<u>Net Book Values</u>	12 527 756	4 290 017	2 991 871

The Company has computer software which have been reclassified from tangible assets to intangible assets amounting to SAR 12.527.756 net book value (31 December 2016 :SAR 4.290.017 January 2016: SAR 2.991.871 net book value).

6 Investment Property

	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 January 2016 (Audited)
<u>Cost:</u>			
At the beginning of the period	50 766 816	37 907 104	4 000 000
Additions	-	12 859 712	33 907 104
At the end of period	50 766 816	50 766 816	37 907 104
<u>Depreciation:</u>			
At the beginning of the period	12 510 347	3 268 957	-
Depreciation for the period	812 995	-	-
Movements due to IFRS adjustments	-	9 241 390	3 268 957
At the end of period	13 323 342	12 510 347	3 268 957
Provision for impairment of investments	4 000 000	4 000 000	4 000 000
<u>Net Book Values</u>	33 443 474	34 256 469	30 638 147

The above investment properties also include buildings or part thereof, which have been kept for the purposes of earning rental income. In accordance with the requirements of IAS 40, these are reclassified from Property, Plant & Equipment to Investment Properties and are recorded at cost.

7 Share Capital

The Company's paid-up capital consists of 46.2 million shares (31 December 2016 : 46.2 million shares (1 Jan 2016: 46.2 million shares) of SAR 10 each.

In the extra ordinary general assembly meeting held on July 6, 2014 share holders resolved to increase the share capital of the Company from Saudi Riyals 330 million to Saudi Riyals 462 million. Such increase in share capital was carried out through transferring Saudi Riyals 132 million from retained earnings to share capital. Accordingly, the number of shares increase from 33 million to 46.2 million shares with a par value of Saudi Riyals 10 each.

8	Loans and borrowings	Notes	31 March 2017	31 December 2016	31 January 2016
			(Unaudited)	(Audited)	(Audited)
	Loans	8.1	330 625 652	360 554 321	285 876 784
			330 625 652	360 554 321	285 876 784
	Non-Current		207 979 978	238 477 661	198 749 750
	Current		122 645 674	122 076 660	87 127 034
			330 625 652	360 554 321	285 876 784

8.1 Details of long term loans

Commercial loans

The Company has various facilities available with Al Rajhi bank. Such facilities, which are unsecured and payable in semi annual installments, have mark up cost which is generally based on SIBOR plus a margin fixed for the duration of the facility. During the period ended 31 March 2017 the Company repaid an amount of Saudi Riyals 29.9 million (December 31, 2016 : Saudi Riyals 96.7 million, 1 January 2016: Saudi Riyals 55.6 million).

Loans from SIDF

Under the terms of the SIDF loan agreement and extension agreement ("agreements"), the Company's Property, plant and equipment that relate to the meat and cake factories are pledged as collateral against financings from SIDF. These loans are also guaranteed by the majority shareholders on pro-rata basis where Savola Group and Mr. Ahmed Al Saeed have guaranteed 70% and 30% of the amount respectively.

These loans are repayable in semi-annual installments. SIDF charges and upfront fee are presented net of the borrowings amount. The Company has to comply with certain covenants related to the loans availed for meat factory regarding the maintenance of certain financial ratios, distribution of profits, maximum rental charges and maximum capital expenditures

The Company has an undrawn facility amounting to Saudi Riyadh 15 million.

The information about liquidity risk are exposed in note 16.2

9 EMPLOYEE BENEFITS

9.1	Defined benefit liability	Notes	31 March 2017	31 December 2016	31 January 2016
			(Unaudited)	(Audited)	(Audited)
	Net defined benefit liability	9.1.1	58 109 289	59 275 627	53 268 680
	Total Net defined benefit liability		58 109 289	59 275 627	53 268 680

9.1.1 Movement in present value of defined benefit obligation

	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 January 2016 (Audited)
Opening balance - present value of defined benefit obligation	59 275 627	53 268 680	47 224 224
Current service cost	3 303 270	10 290 484	11 795 036
Benefits paid	(4 469 608)	(3 784 025)	(5 963 701)
Actuarial loss / (gain) on obligation	-	(499 512)	213 121
Closing balance - present value of defined benefit obligation	58 109 289	59 275 627	53 268 680

9.2 Sensitivity in Defined Benefit Obligation

	31 December 2016 (Audited)
Membership Data	
Average age of employees (years)	5 831
Average years of past service	31
Average number of years of previous experience	3.28
Discount Rate	4%

10 Zakat

10.1 Movement in provision for zakat

Notes	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 January 2016 (Audited)
Opening Balance	6 947 222	5 582 370	4 500 000
Provision for Current period	1 100 000	4 250 000	4 000 000
Payments	-	(2 885 148)	(2 917 630)
Closing balance	8 047 222	6 947 222	5 582 370

Zakat has been calculated based on zakat base for the Company. The Company has filed zakat returns till the year December 31, 2016 and settled zakat dues accordingly. The Company obtained non-restricted certificate till 2016 from the GAZT. The Company is in the process of filing the zakat return for the year ended December 31, 2016.

11 Other income

	31 March 2017 (Unaudited)	31 March 2016 (Unaudited)
Rental income	2 097 101	361 484
Franchise income	283 064	201 445
Other	536 522	2 182 072
Gain on sale of Property, plant and equipment	-	98 492
	2 916 687	2 843 493

12 EARNING PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	31 March 2017 (Unaudited)	31 March 2016 (Unaudited)
Profit for the period	52 717 668	53 351 432
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings.	46 200 000	46 200 000

13 Segment Information

The Company operates principally in the following major business segments:

- 1- Providing catering services and operating of restaurants;
- 2- Manufacturing and selling of meat products of Meat Factory;
- 3- Manufacturing and selling of pastries and bakery products of Bakeries and other.

These operating segments are identified based on internal reports that the entity's Chief Financial Officer (CFO) regularly reviews in allocating resources to segments and in assessing their performance 'management approach'. The management approach is based on the way in which management organizes the segments within the entity for making operating decisions and in assessing performance. The management of HERFY at the end of every reporting period, reviews the above segments for quantitative thresholds as well as criteria for presenting the revenues and expenses for the segments.

13.1 Selected financial information as of March 31 and for the Period ended, summarized by the above business segments, was as follows (in Saudi Riyals)

	Restaurants and Catering service		Meat factory		Bakeries and other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Total segment revenue	232 909	241 177	29 833	29 159	39 930	45 463	302 672	316 799
Inter-segment revenue	-	-	(22 006)	(22 486)	(5 655)	(9 760)	(27 661)	(32 246)
Revenue net	232 909	241 177	7 827	6 673	34 275	36 703	275 011	283 553
Net Income	33 223	35 795	10 527	8 410	8 968	9 137	52 718	53 351
Finance cost	2 362	1 452	99	33	-	-	2 461	1 485
Depreciation and amortization	12 718	17 424	3 378	1 214	1 144	3 162	17 240	21 800
Property, plant and equipment	828 879	728 102	43 574	41 509	185 391	201 631	1 057 844	971 142
Total assets	1 050 299	891 800	88 864	66 012	250 013	245 781	1 388 976	1 223 693

14 Effect of IFRSs Standards Adoption

As stated in note 2.1 these are the Group's first Financial Statements for the period ended 31 March 2017 prepared in accordance with IFRS Standards.

The accounting policies set out in note 5 have been applied in preparing these Financial Statements for the period ended 31 March 2017.

In preparing these Financial Statements, the Group's opening Statement of Financial Position was prepared as at 01 January 2016, being the date of transition to IFRS Standards.

In preparing its opening Condensed Consolidated Statement of Financial Position in accordance with IFRS Standards, the Company has adjusted amounts reported previously in Financial Statements prepared in accordance with SOCPA Standards. An explanation of how the transition from SOCPA Standards to IFRS Standards has affected the Company's financial position and financial performance is set out in Note 14.1 to 14.5.

14.1 Reconciliation of the Statement Of Financial Position

	As at 31 December 2016		As at 31 March 2016		As at 01 January 2016	
	SOCFA Standards	Effect of transition to IFRSs Standards	SOCFA Standards	Effect of transition to IFRSs Standards	SOCFA Standards	Effect of transition to IFRSs Standards
Non-Current Assets						
Property, Plant and Equipment	1 033 984 549	(32 391 177)	987 069 397	(28 320 697)	936 382 341	(29 296 153)
Intangible Assets	4 290 017	-	2 990 966	-	2 991 871	-
Investment Property	-	34 256 469	-	29 402 480	-	30 638 147
	1 038 264 566	1 865 292	970 060 363	1 081 783	939 374 212	1 341 984
Current Assets						
Inventories	101 762 034	-	108 839 511	-	108 946 148	-
Trade Receivables	50 025 065	-	30 089 826	-	40 972 370	-
Prepayments	88 927 998	(11 992 850)	78 282 850	(11 740 411)	79 231 082	(11 656 265)
Cash and Bank Balances	73 225 799	-	47 100 172	-	22 908 312	-
	313 935 894	(11 992 850)	264 291 769	(11 740 411)	262 067 922	(11 656 265)
Total Assets	1 352 190 460	(10 127 658)	1 234 352 122	(10 668 629)	1 191 432 134	(10 314 271)

	As at 31 December 2016		As at 31 March 2016		As at 01 January 2016	
	SOCFA Standards	Effect of transition to IFRSs Standards	SOCFA Standards	Effect of transition to IFRSs Standards	SOCFA Standards	Effect of transition to IFRSs Standards
Equity And Liabilities						
Equity						
Share Capital	462 000 000	-	462 000 000	-	462 000 000	-
Statutory Reserve	138 967 946	-	122 579 134	-	117 218 334	-
Retained Earnings	211 582 156	(9 841 167)	204 482 848	(10 180 994)	156 235 648	(9 824 426)
TOTAL EQUITY	812 550 102	(9 841 167)	789 061 982	(10 180 994)	735 453 982	(9 824 426)
Non-Current Liabilities						
Long Term Borrowings	238 477 661	-	184 706 498	(668 493)	198 749 750	-
Employee Benefits	59 562 018	(286 391)	54 579 559	190 858	53 055 559	213 121
	298 039 679	(286 391)	239 286 057	(477 635)	251 806 309	213 121
Current Liabilities						
Short Term Borrowings	122 076 660	-	81 304 538	-	87 730 000	(602 966)
Zakat Payable	6 947 222	-	6 707 370	-	5 582 370	-
Trade Payables	107 376 969	-	107 992 175	-	105 668 604	-
Accrued expenses and other payable	5 199 828	-	5 199 828	-	5 191 869	-
	241 600 679	-	206 004 003	-	204 172 843	(802 966)
Total Liabilities	539 640 368	(286 391)	445 290 140	(477 635)	455 978 152	(389 846)
Total Liabilities And Equity	1 352 190 460	(10 127 658)	1 234 352 122	(10 668 629)	1 191 432 134	(10 314 271)

14.2 Reconciliation of Equity

	As at 31 December 2016	As at 31 March 2016	As at 01 January 2016
Total Equity under SOCPA Standards	812 650 102	789 061 982	735 453 982
Effect of IFRSs Standards Adoption			
Actuarial Valuation Charge	285 391	(190 858)	(213 121)
Expenses capitalized as pre-operating expenses	-	(760 868)	(492 419)
Impact of grace period in rent until 2015	(11 454 704)	(11 740 411)	(11 656 265)
Capitalization of cost and accumulated depreciation of rental	529 954	824 102	866 539
Write-off of ineligible expenses capitalized along with fixed assets	(2 040 266)	(1 974 739)	(2 040 266)
Impact of capitalization of borrowing cost	2 837 458	3 058 812	3 008 140
Unamortized deferred charge as per effective interest rate method	-	602 966	602 968
	(9 841 167)	(10 180 994)	(9 924 426)
Total Equity under IFRS Standards	802 708 935	778 880 988	725 529 556

14.3 Reconciliation of Statement of Profit or Loss

	For the Year ended 31 December 2016			For the Period ended 31 March 2016		
	SOCPA Standards	Effect of transition to IFRSs Standards	IFRSs Standards	SOCPA Standards	Effect of transition to IFRSs Standards	IFRSs Standards
Revenue	1 156 683 409	-	1 166 683 409	283 552 937	-	283 552 937
Cost of Revenue	(609 080 184)	(6 680 147)	(6 815 760 331)	(199 213 217)	913 573	(198 299 644)
Gross Profit	347 603 225	(6 680 147)	340 923 078	84 339 720	913 573	85 253 293
Selling and Distribution Expenses	(58 273 972)	-	(58 273 972)	(14 033 637)	-	(14 033 637)
General and Administration Expenses	(63 676 131)	-	(63 676 131)	(15 337 267)	(2 764 221)	(18 101 488)
Operating Profit	225 653 122	(6 680 147)	218 972 975	54 968 818	(1 850 648)	53 118 157
Other Revenue	3 404 383	7 366 372	10 770 755	1 314 939	1 528 554	2 843 493
Finance Cost	(7 311 385)	(602 966)	(7 914 351)	(1 550 755)	65 527	(1 485 228)
Profit before zakat	221 746 120	83 259	221 829 379	54 733 000	(256 568)	54 476 432
Zakat	(4 250 000)	-	(4 250 000)	(1 125 000)	-	(1 125 000)
Profit for the year / period	217 496 120	83 259	217 579 379	53 608 000	(256 568)	53 351 432

14.4 Reconciliation of Statement of Comprehensive Income

	For the Year ended 31 December 2016		For the Period ended 31 March 2016			
	SOCPA Standards	Effect of Transition to IFRSs Standards	IFRSs Standards	SOCPA Standards	Effect of Transition to IFRSs Standards	IFRSs Standards
Income for the period	217 496 120	83 259	217 579 379	53 608 000	(256 568)	53 351 432
Items that will not be reclassified to profit or loss:	-	-	-	-	-	-
<i>Other Comprehensive Income for the year / period</i>	-	-	-	-	-	-
<i>Total Comprehensive Income for the year / period</i>	217 496 120	83 259	217 579 379	53 608 000	(256 568)	53 351 432

14.5 Reconciliation of Profit

	For the Year ended 31 December 2016		For the Period ended 31 March 2016	
	Profit before zakat	Profit for the year	Profit before zakat	Profit for the Period
As per SOCPA Standards	221 746 120	217 496 120	54 733 000	53 608 000
Revenue cost	(6 680 147)	(6 680 147)	913 573	913 573
Selling and Distribution Expenses	-	-	(2 764 221)	(2 764 221)
General and Administration Expenses	7 366 372	7 366 372	1 528 554	1 528 554
Other Revenue	(602 966)	(602 966)	65 527	65 527
Finance Cost	83 259	83 259	(256 568)	(256 568)
Total adjustment to Profit or Loss	221 829 378	217 579 379	54 476 432	53 351 432
Profit or Loss as per IFRS Standards	-	-	-	-
Other Comprehensive Income	-	-	-	-
<i>Total Comprehensive Income as per IFRS Standards</i>	221 829 378	217 579 379	54 476 432	53 351 432

15 Cash and Cash Equivalents

	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 January 2016 (Audited)
Cash in Bank	89 463 925	63 628 169	16 708 936
Cash in Hand	9 739 601	9 597 630	6 199 376
	99 203 526	73 225 799	22 908 312

Cash in bank include SR 60 031 795 investment in Commodities Mudaraba Fund - SAR

16 Risk Management of Financial Instruments

The Company's activities expose it to a variety of financial risks, credit risk, liquidity risk, market price risk and capital management risk.

16.1 Credit Risk:

Credit risk is the risk that one party to financial instruments will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk on its bank balances, trade receivables and receivables from related parties as follows.

	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 January 2016 (Audited)
Cash at Bank	89 463 925	63 628 169	16 708 936
Trade Receivables - Other Parties	18 322 798	15 334 168	12 394 573
Trade Receivables - Related Parties	18 282 014	14 179 125	10 809 825
	126 068 737	93 141 462	39 913 334

The carrying amount of financial assets represents the maximum credit exposure

Credit risk on receivable and bank balances is limited as:

- Cash balances are held with banks with sound credit ratings ranging from BBB+ to A 1.
- The receivable are shown net of allowance for impairment of trade receivables and sales returns.
- Financial position of related parties is stable.

The Company manages credit risk with respect to receivables from customers by monitoring in accordance with defined policies and procedures.

The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables on an ongoing basis. The receivable balances are monitored with the result that the Company's exposure to bad debts is not significant.

Trade receivables outstanding balance comprises of 100% in KSA at 31 March 2017.

16.2 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 the inability to sell a financial asset quickly at an amount close to its fair value. Following are the contractual maturities at the end of the reporting period of financial liabilities. The amounts are grossed and undiscounted, and include estimated interest payments.

	31 March 2017 (Unaudited)			
	Carrying Amount	Less than 1 year	1 year to 5 years	More than 5 years
Borrowings	330 625 652	122 645 674	207 979 978	-
Trade and other payables	135 278 807	135 278 807	-	-
Trade Payables to Related Parties	1 488 871	1 488 871	-	-
	467 393 330	259 413 352	207 979 978	-
	31 December 2016 (Audited)			
	Carrying Amount	Less than 1 year	1 year to 5 years	More than 5 years
Borrowings	360 554 321	122 076 660	238 477 661	-
Trade and other payables	103 879 424	103 879 424	-	-
Trade Payables to Related Parties	3 497 545	3 497 545	-	-
	467 931 290	229 453 629	238 477 661	-
	01 January 2016 (Audited)			
	Carrying Amount	Less than 1 year	1 year to 5 years	More than 5 years
Borrowings	285 876 784	87 127 034	198 749 750	-
Trade and other payables	100 096 422	100 096 422	-	-
Trade Payables to Related Parties	5 572 182	5 572 182	-	-
	391 545 388	192 795 638	198 749 750	-

Liquidity risk is managed by monitoring on a regular basis that sufficient funds and banking and other credit facilities are available to meet the Company's future commitments. The Company's terms of sales require amounts to be paid either on a cash on delivery or on a terms basis.

16.3 Market Risk:

Market price risk is the risk that value of a financial instrument will fluctuate as a result of changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

16.4 Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company transactions are principally in Saudi Riyals and US Dollars. As the Saudi Riyals is pegged against US Dollar, the Company does not have any significant exposure to currency risk. The Company also has some transactions in EURO, which were not significant in 2016 and 2015.

16.5 Interest rate risk

Interest rate risks is the risk associated with the effect of fluctuation in the prevailing interest rates on the Company's financial position and cash flows. The Company interest rate arise mainly from its borrowings which are on fixed rate of interest therefore the cash flow interest rate risk is considered minimal. The rates of interest on borrowings are close to the market rates, therefore management believes that fair value is not significant.

16.6 Capital Management

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitor the return on capital employed and the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

- 1) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- 2) to provide an adequate return to shareholders

The Company manages the capital structure in the context of economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders and issue new shares.

The company relies heavily on long - term loans to meet its capital expenditures

17 Subsequent Events

In the opinion of the management, there have been no significant subsequent events since the period end that would have a material impact on the financial position of the Company as reflected in these Financial Statements.

18 Comparative Figures

Items, elements and notes of the comparatives Condensed Consolidated Interim Financial Statements have been redisplayed, regrouped and reclassified to meet with the applied accounting policies for the current period which have been prepared according to the International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia.

19 Board Of Directors Approval

These Financial Statements were approved by the Board of Directors on 8 Shaban 1438 A.H. (4 May 2017)