

**HERFY FOOD SERVICES
COMPANY**
(A Saudi Joint Stock Company)

INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH AND SIX-MONTH
PERIODS ENDED JUNE 30, 2016 AND LIMITED
REVIEW REPORT

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2016

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Hery Food Services Company
(A Saudi Joint Stock Company)
Interim Balance Sheet (Unaudited)
(All Amounts in Saudi Riyals Unless otherwise stated)

	Note	June 30,	
		2016	2015
		(Unaudited)	(Unaudited)
<u>Assets</u>			
<u>Current assets</u>			
Cash and cash equivalents		54,587,195	32,771,903
Accounts receivable		26,233,377	20,890,157
Inventories		115,842,913	107,474,477
Prepayments and other receivables		61,906,266	81,441,708
Total Current Assets		258,569,751	242,578,245
<u>Non-current assets</u>			
Investment property		-	2,000,000
Property, plant and equipment		996,947,152	855,470,099
Total Non-Current Assets		996,947,152	857,470,099
Total Asstes		1,255,516,903	1,100,048,344
<u>Liabilities</u>			
<u>Current liabilities</u>			
Current maturity of long-term borrowings		99,336,177	69,612,000
Accounts payable		58,749,035	58,053,416
Accrued expenses and other liabilities		42,188,697	35,898,393
Provision for zakat	(4)	4,772,222	3,582,370
Total Current Liabilities		205,046,131	167,146,179
<u>Non-current liabilities</u>			
Long-term borrowings		228,173,427	179,213,746
Employee termination benefits		54,650,860	50,807,022
		282,824,287	230,020,768
Total liabilities		487,870,418	397,166,947
<u>Shareholders' Equity</u>			
Share capital	(7)	462,000,000	462,000,000
Statutory reserve		127,547,584	107,031,076
Retained earnings		178,098,901	133,850,321
Total shareholders' equity		767,646,485	702,881,397
Total liabilities and shareholders ' equity		1,255,516,903	1,100,048,344
Contingencies and commitments			

The accompanying notes form (1) to (9) an integral part of these financial statements.

Hery Food Services Company
(A Saudi Joint Stock Company)
Interim Income Statement (unaudited)
(All Amounts in Saudi Riyals Unless otherwise stated)

	Note No.	Three-month periods ended june 30.		Six-month periods ended june 30.	
		2016	2015	2016	2015
Sales (net)		277,730,548	259,363,613	561,283,485	524,562,573
Cost of sales		(200,696,652)	(184,346,488)	(399,909,867)	(362,674,575)
Gross Profit		77,033,896	75,017,125	161,373,618	161,887,998
Operating expenses					
Selling and marketing		(11,442,043)	(13,176,270)	(25,475,679)	(28,214,694)
General and administrative		(14,889,657)	(12,499,618)	(30,226,924)	(28,634,452)
Income from operations		50,702,196	49,341,237	105,671,015	105,038,852
Other income (expenses)					
Financial charges		(1,339,937)	(976,481)	(2,890,692)	(2,034,074)
Other - net		1,272,241	(1,249,025)	2,587,180	(195,650)
Income before zakat		50,634,500	47,115,731	105,367,503	102,809,128
Zakat		(950,000)	(850,000)	(2,075,000)	(2,000,000)
Net income for the period		49,684,500	46,265,731	103,292,503	100,809,128
Earnings per share:					
• Income from operations		1.10	1.07	2.29	2.27
• Net income for the period		1.08	1.00	2.24	2.18

The accompanying notes form (1) to (9) an integral part of these financial statements.

Hery Food Services Company
(A Saudi Joint Stock Company)
Interim cash flow statement (Unaudited)
(All Amounts in Saudi Riyals Unless otherwise stated)

	Note no.	For Six-month periods ended june 30.	
		2016	2015
<u>Cash flow from operating activities</u>			
Net income for the period		103,292,503	100,809,128
<u>Adjustment for non-cash items</u>			
Depreciation		46,796,449	36,800,559
Provision for employee termination benefits		6,040,244	5,667,356
Provision for zakat		2,075,000	2,000,000
Provision for Impairment of Investment		-	2,000,000
Amortization		499,129	499,262
(Reversal of) / provision for doubtful debts		-	(350,000)
Provision for slow moving inventory		(90)	(102,750)
Financial charges		2,890,692	2,034,074
Loss (Gain) on sale of property, plant and equipment		(265,163)	105,320
<u>Changes in working capital</u>			
Accounts receivable		(3,028,979)	(531,047)
Inventories		(6,896,675)	(16,235,333)
Prepayments and other receivables		35,092,798	9,306,260
Accounts payable		(9,995,382)	9,931,826
Accrued expenses and other liabilities		(848,451)	(3,226,565)
Zakat paid	(4)	(2,885,148)	(2,917,630)
Employee termination benefits paid		(4,444,944)	(2,084,558)
Net cash generated from operating activities		168,321,983	143,705,902
<u>Cash flow from investing activities</u>			
Purchase of property, plant and equipment		(115,278,269)	(151,696,114)
Proceeds from sale of property and equipment		10,040,354	604,929
Net cash utilized In investing activities		(105,237,915)	(151,091,185)
<u>Cash flow from financing activities</u>			
Proceeds from long-term borrowings		89,998,589	110,576,750
Repayments of long-term borrowings		(47,265,000)	(21,920,000)
Dividend paid		(71,100,000)	(75,720,000)
Financial charges paid		(3,038,774)	(1,559,256)
Net cash utilized in financing activities		(31,405,185)	11,377,494
Net change in cash and cash equivalents		31,678,883	3,992,211
Cash and cash equivalents at beginning of period		22,908,312	28,779,692
Cash and cash equivalents at end of period		54,587,195	32,771,903

The accompanying notes form (1) to (9) an integral part of these financial statements.

Hery Food Services Company
(A Saudi Joint Stock Company)
Interim Statement of Changes in Shareholders' Equity (Unaudited)
(All Amounts in Saudi Riyals Unless otherwise stated)

Description	Share Capital	Statutory Reserve	Retained earning	Total
January 1, 2016 (audited)	462,000,000	117,218,334	156,235,648	735,453,982
Net income for the period	-	-	103,292,503	103,292,503
Transfer to statutory reserve	-	10,329,250	(10,329,250)	-
Dividend paid	-	-	(71,100,000)	(71,100,000)
June 30, 2016(unaudited)	462,000,000	127,547,584	178,098,901	767,646,485
January 1, 2015 (audited)	462,000,000	96,950,163	118,842,106	677,792,269
Net income for the period	-	-	100,809,128	100,938,217
Transfer to statutory reserve	-	10,080,913	(10,080,913)	-
Dividends paid	-	-	(75,720,000)	(75,720,000)
June 30. 2015 (unaudited}	462,000,000	107,031,076	133,850,321	703,010,486

The accompanying notes form (1) to (9) an integral part of these financial statements.

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2016

1- General information

Herfy Food Services Company (the "Company") 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 buildings and own, use, maintain and lease stores and food store fridges.

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

At June 30, 2016, the total number of restaurants owned and leased by the Company were 39 and 274, respectively (2015 - 33 owned and 243 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 sweets, pastries, cakes, bread and rusks ("Rusk Factory"), which operated under commercial registration number 1010179007 issued on Jumad-ul-Awal 11, 1423H (July 20, 2002) and in accordance with industrial license number 1225/S issued on Dhul-Qada 6, 1422H (January 19, 2002), The Rusk Factory commenced production in April 2003. During the year ended December 31, 2013, the Company disposed the plant and equipment relating to the Rusk Factory. The production of sweets, pastries, cakes, bread and rusks is now being carried out from a new bakery. 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 Jumad-ul-Thani 16, 1425H (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 Shawwal 20, 1431H (September 29, 2010) and in accordance with industrial license number 11583/T issued on Shawwal 18, 1431H (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.

These interim financial statements were authorized for issue by the Company's Board of Directors on 20 Shawwal 1437 H (25 July 2016).

2- Summary of significant accounting policies

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

2-1 Basis of preparation

The accompanying interim financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

The interim financial statements have been prepared in accordance with SOCPA's Standard on Interim Financial Reporting. The accounting policies used in the preparation of the interim financial statements are consistent with those used in the preparation of annual financial statements for the year ended December 31, 2015.

The interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements as at December 31, 2015. In the opinion of management, the interim financial statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the results of operations for the periods presented.

The Company's interim results may not be indicative of its annual results of the operations.

2-2 Critical accounting estimates and judgments

The preparation of interim financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported balances of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

In preparing these interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements for the year ended December 31, 2015.

2-3 Investment property

Property held for long-term rental yields or for capital appreciation or both, which is not occupied by the Company classified as investment property. Investment property is stated at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The assets' useful lives are

reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals, if any, are determined by comparing the proceeds with the carrying amount and are recognized in the income statement.

2-4 Segment reporting

(a) Business segment

A business segment is a group of assets and operations:

- engaged in revenue producing activities.
- results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- financial information is separately available.

(b) Geographical segment

A geographical segment is a group of assets and operations 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.

2-5 Foreign currency translations

a) Reporting currency

The interim 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which were not significant for the six-month periods ended June 30, 2016 and 2015 are recognized in the income statement.

2-6 Cash and cash equivalents

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

2-7 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 income statement and reported under "general and administrative expenses". When an 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 income statement.

2-8 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads.

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

2-9 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses, except construction in progress which is carried at cost. Land is not depreciated. Depreciation is charged to the income statement, using the straight-line method to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
Buildings	20
Machinery and equipment	4-20
Furniture and office equipment	3-7
Motor vehicles	5
IT equipment	6-7
Premises improvements	Shorter of lease term and useful life

Premises improvement costs mainly consist of pre-operating costs incurred on newly established restaurants, and rent expenses for leased premises during the pre-operating phase, which are being amortized on the straight-line basis from the date of commercial operation of the respective restaurant.

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

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

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 the 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 income statement.

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 income statement.

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 income statement. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

2-15 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the income statement. 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 Revenues

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the company's activities. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met. The amount of revenue is not considered to be reliably measurable until all significant contingencies relating to the sale have been resolved.

Restaurant sales are made on a cash basis and are recognized on a receipt basis. Revenues from factories, bakeries, catering services and other sales are recognized upon delivery of goods to the customer, Revenues are shown net of discounts and transportation expenses.

2-17 Selling, marketing, general and administrative expenses

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

2-18 Dividends

Dividends are recorded in the financial statements in the period in which they are approved by the shareholders of the Company.

2-19 Operating leases

Rental expenses under operating leases are charged to the income statement over the period of the respective lease. Rental income is recognized on the accruals basis in accordance with the terms of the contracts.

3- 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.

Selected financial information as of June 30 and for the six-month periods then ended, summarized by the above business segments, was as follows (in Saudi Riyals OOO's)

2016 (unaudited)	Restaurants	Meat factory	Bakeries and other	Total
Total segment sales	480,488	61,198	87,042	628,728
Inter-segment sales	-	(48,239)	(19,206)	(67,445)
Sales from external customers	480,488	12,959	67,836	561,283
OP - INCOME	72,834	17,205	15,632	105,671
Net income	70,406	17,244	15,642	103,292
Financial charges	2,821	70	-	2,891
Depreciation and amortization	37,890	2,422	6,484	46,796
Property, plant and equipment	758,966	40,216	197,765	996,947
Total assets	945,945	83,598	225,973	1,255,516
2015 (unaudited)	Restaurants	Meat factory	Bakeries and other	Total
Total segment sales	447,906	60,552	78,489	586,947
Inter-segment sales	-	(45,895)	(16,489)	(62,384)
Sales from external customers	447,906	14,657	62,000	524,263
OP - INCOME	75,418	16,598	13,023	105,039
Net income	71,201	16,581	13,027	100,809
Financial charges	1,976	58	-	2,034
Depreciation and amortization	29,688	2,353	4,760	36,801
Property, plant and equipment	632,199	38,891	184,380	855,470
Total assets	783,423	85,222	231,403	1,100,048

The Company's operations are only conducted in the Kingdom of Saudi Arabia.

4- ZAKAT

	June30,	
	2016	2015
January1, (Audited)	5,582,370	4,500,000
Provisions for current period	2,075,000	2,000,000
Payment	(2,885,148)	(2,917,630)
June 30, (unaudited)	4,772,222	3,582,370

5- Investment property

	June30,	
	2016	2015
January1, (Audited)	--	4,000,000
Deducts		
Provision for Impairment of Investment	--	(2,000,000)
June 30, (unaudited)	--	2,000,000

6- Operating leases

The Company has various operating leases for its restaurants, employees' accommodations and vehicles. Rental expenses for the six-month period ended June 30, 2016 were Saudi Riyals 36,9 million (2015: Saudi Riyals 28,6 million).

Future rental commitments under non-cancelable operating leases with terms expiring within one year and in excess of one year are as follows:

	June30,	
	2016	2015
Within one year	78,449,366	71,791,123
Between two and five years	237,911,556	235,787,307
Greater than five years	471,058,452	455,344,852
	787,419,374	762,923,282

7- Earnings per share

The issued and fully paid share capital of the Company consists of 46,2 million shares with a par value of Saudi Riyals 10 each (December 31, 2015: 46,2 million shares with a par value of Saudi Riyals 10 each).

In accordance with the accounting standards generally accepted in Saudi Arabia, the earnings per share for the three-month and six-month periods ended June 30, 2016 and 2015 has been computed by dividing the income from operations and net income for such periods by 46.2 million shares.

8- Contingencies and commitments

- (i) The Company is contingently liable for bank guarantees issued on behalf of the Company amounting to Saudi Riyals 1.3 million (2015: Saudi Riyals 1.2 million) in the normal course of business.
- (ii) The capital expenditure contracted by the Company but not incurred till June 30, 2016 is approximately Saudi Riyals 40.8 million (2015: Saudi Riyals 40 million).
- (iii) Also see Note 5 with respect to lease commitments.

9- Comparative Figures

Some comparative figures related to 2015 have been changed in order to conform with the current presentation of the financial statement.