

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

INTERIM FINANCIAL STATEMENTS (Unaudited)  
FOR THE THREE-MONTH PERIOD  
ENDED MARCH 31, 2013 AND INDEPENDENT  
ACCOUNTANTS' LIMITED REVIEW REPORT

HERFY FOOD SERVICES COMPANY  
(A Saudi Joint Stock Company)  
INTERIM FINANCIAL STATEMENTS (Unaudited)  
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2013

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**LIMITED REVIEW REPORT**

April 16, 2013

To the Shareholders of Herfy Food Services Company:  
(A Saudi Joint Stock Company)

**Scope of review**

We have reviewed the accompanying interim balance sheet of Herfy Food Services Company (a Saudi Joint Stock Company) (the "Company") as of March 31, 2013 and the interim statements of income and cash flows for the three-month period then ended, and the related notes which form an integral part of these interim financial statements. These interim financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required.

We conducted our limited review in accordance with the standard of Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

**Review conclusion**

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in Saudi Arabia.

**PricewaterhouseCoopers**

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**HERFY FOOD SERVICES COMPANY**  
(A Saudi Joint Stock Company)  
**Interim balance sheet**  
(All amounts in Saudi Riyals unless otherwise stated)

	Note	March 31,	
		2013 (Unaudited)	2012 (Unaudited)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		80,491,181	77,230,903
Accounts receivable		20,744,806	23,937,595
Inventories		73,759,607	67,130,689
Prepayments and other receivables		81,177,952	63,526,425
		<u>256,173,546</u>	<u>231,825,612</u>
<b>Non-current assets</b>			
Investment properties		4,000,000	4,000,000
Deferred charges		346,548	476,548
Property, plant and equipment		504,842,897	398,716,570
		<u>509,189,445</u>	<u>403,193,118</u>
<b>Total assets</b>		<u>765,362,991</u>	<u>635,018,730</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Current maturity of long-term borrowings		20,566,667	12,766,666
Accounts payable		45,340,251	39,539,127
Accrued and other liabilities		46,820,102	42,349,758
Zakat payable		1,125,000	1,767,250
		<u>113,852,020</u>	<u>96,422,801</u>
<b>Non-current liabilities</b>			
Long-term borrowings		46,598,667	27,615,334
Employee termination benefits		36,983,763	30,787,895
		<u>83,582,430</u>	<u>58,403,229</u>
<b>Total liabilities</b>		<u>197,434,450</u>	<u>154,826,030</u>
<b>Shareholders' equity</b>			
Share capital	1	300,000,000	300,000,000
Statutory reserve		61,873,790	43,171,873
Retained earnings		206,054,751	137,020,827
<b>Total shareholders' equity</b>		<u>567,928,541</u>	<u>480,192,700</u>
<b>Total liabilities and shareholders' equity</b>		<u>765,362,991</u>	<u>635,018,730</u>
Contingencies and commitments	6		

The notes on pages 5 to 10 form an integral part of these interim financial statements.

**HERFY FOOD SERVICES COMPANY**  
**(A Saudi Joint Stock Company)**  
**Interim income statement**  
 (All amounts in Saudi Riyals unless otherwise stated)

	Note	Three-month period ended March 31,	
		2013 (Unaudited)	2012 (Unaudited)
Sales		208,768,499	198,942,382
Cost of sales		(141,704,074)	(137,243,610)
Gross profit		67,064,425	61,698,772
<b>Operating expenses</b>			
Selling and marketing		(7,729,622)	(8,406,278)
General and administrative		(11,247,427)	(11,201,691)
Management fees		(1,436,995)	(1,255,803)
Income from operations		46,650,381	40,835,000
<b>Other income (expenses)</b>			
Financial charges		(296,838)	(183,980)
Other - net		1,234,324	1,003,266
Income before zakat		47,587,867	41,654,286
Zakat		(1,125,000)	(1,050,000)
<b>Net income for the period</b>		<b>46,462,867</b>	<b>40,604,286</b>
<b>Earnings (loss) per share:</b>	5		
▪ Operating income		1.56	1.36
▪ Non-operating (loss) income		(0.01)	(0.01)
▪ Net income for the period		1.55	1.35

The notes on pages 5 to 10 form an integral part of these interim financial statements.

**HERFY FOOD SERVICES COMPANY**  
**(A Saudi Joint Stock Company)**  
**Interim cash flow statement**  
(All amounts in Saudi Riyals unless otherwise stated)

	For the three-month period ended March 31	
	2013 (Unaudited)	2012 (Unaudited)
<b>Cash flow from operating activities</b>		
Net income for the period	46,462,867	40,604,286
<u>Adjustments for non-cash items</u>		
Depreciation	12,443,835	10,696,957
Amortization	32,055	32,411
Provision for doubtful debts	-	22,461
Gain on sale of property, plant and equipment	(282,716)	(101,028)
<u>Changes in working capital</u>		
Accounts receivable	(3,373,163)	(3,551,128)
Inventories	(2,915,561)	(1,969,156)
Prepayments and other receivables	(19,893,269)	(6,185,906)
Accounts payable	2,699,025	3,919,801
Accrued and other liabilities	1,858,768	5,273,672
Zakat payable	(3,475,000)	(1,993,353)
Employee termination benefits	1,437,366	1,160,748
Net cash generated from operating activities	<u>34,994,207</u>	<u>47,909,765</u>
<b>Cash flow from investing activities</b>		
Purchase of property and equipment	(28,226,616)	(27,701,209)
Proceeds from sale of property and equipment	4,612,085	224,357
Net cash utilized in investing activities	<u>(23,614,531)</u>	<u>(27,476,852)</u>
<b>Cash flow from financing activities</b>		
Proceeds from long-term borrowings	10,800,000	2,007,000
Repayments of long-term borrowings	(1,850,000)	(2,879,000)
Net cash generated from (utilized in) financing activities	<u>8,950,000</u>	<u>(872,000)</u>
<b>Net increase in cash and cash equivalents</b>	<b>20,329,676</b>	<b>19,560,913</b>
Cash and cash equivalents at beginning of period	<u>60,161,505</u>	<u>57,669,990</u>
Cash and cash equivalents at end of period	<u>80,491,181</u>	<u>77,230,903</u>

The notes on pages 5 to 10 form an integral part of these interim financial statements.

**HERFY FOOD SERVICES COMPANY**  
**(A Saudi Joint Stock Company)**  
**Notes to the interim financial statements**  
**For the three-month period ended March 31, 2013 (Unaudited)**  
**(All amounts in Saudi Riyals unless otherwise stated)**

**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. Box 86958, Riyadh 11632, Kingdom of Saudi Arabia.

At March 31, 2013, the total number of restaurants owned and leased by the Company were 20 and 182, respectively (2012 - 20 owned and 171 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 operates 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 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.

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

On January 17, 2010, the Company completed an initial public offering in the Saudi Capital Market ("Tadawul") of 30% of its share capital. The shares were listed on Tadawul on February 2, 2010. The related legal formalities to update the Articles of Association were completed during the year ended December 31, 2010.

In an extra-ordinary general assembly meeting held on August 1, 2011, the shareholders resolved to increase the share capital of the Company from Saudi Riyals 270 million to Saudi Riyals 300 million. Such increase in share capital of Saudi Riyals 30 million was effected by transferring Saudi Riyals 30 million from retained earnings to share capital. Accordingly, the number of shares has increased from 27 million to 30 million shares with a par value of Saudi Riyals 10 each. The legal formalities for such changes were completed during the year ended December 31, 2011.

The share capital of the Company as of March 31, 2013 comprised of 30 million shares stated at Saudi Riyals 10 each per share.

These interim financial statements were authorized for issue by the Company's Board of Directors on April \_\_, 2013.

**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 periods 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"). These interim financial statements should be read in conjunction with the annual audited financial statements for the year ended December 31, 2012.

**HERFY FOOD SERVICES COMPANY**  
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**For the three-month period ended March 31, 2013 (Unaudited)**  
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The interim financial statements have been prepared in accordance with SOCPA's standard of Interim Financial Reporting, on the basis of integrated periods, which views each interim period as an integral part of the financial year. Accordingly, revenues, gains, expenses and losses of the period are recognized during the period. The accompanying interim financial statements include all adjustments, comprising mainly of normal recurring accruals, considered necessary by the management to present fair statements of financial position, results of operations and cash flows. The results of operations for the interim period may not represent a proper indication of the annual results of operations.

## **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 which, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include the following:

### **(a) Provision for doubtful debts**

A provision for impairment of accounts receivables 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 360 days overdue) are considered indicators that the account receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering the past recovery rates.

## **2.3 Investment property**

Property held for long-term rental yields or for capital appreciation or both, which is not occupied by the Company, is 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. At March 31, 2013 and 2012, the investment property recorded by the Company comprises one land parcel which is not subject to depreciation.

## **2.4 Segment reporting**

### **(a) Business segment**

A business segment is a group of assets and operations:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) 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.



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**2.5 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which were not significant for the period ended March 31, 2013 and 2012, 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 "selling and marketing 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 "selling and marketing 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 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 - 10
• Furniture and office equipment	3 - 7
• Motor vehicles	5
• Premises improvements	3 - 7

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 over a period of three to seven years starting 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.

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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 Deferred charges**

Costs that are not of benefit beyond the current period are charged to the income statement, while costs that will benefit future periods are capitalized. Deferred charges include certain indirect construction costs which are amortized over periods which do not exceed five years. Deferred charges also include loan approval fees and related costs on a loan from Saudi Industrial Development Fund ("SIDF"). Such charges are amortized over a period of five years.

**2.11 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 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 in the income statement. Impairment losses recognized on intangible assets are not reversible.

**2.12 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.

**2.13 Accounts payable and accruals**

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

**2.14 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.

**2.15 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.

**2.16 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.

**HERFY FOOD SERVICES COMPANY**  
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**2.17 Revenues**

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 customers. Revenues are shown net of discounts and transportation expenses.

**2.18 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.

**2.19 Dividends**

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

**2.20 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:

- (i) Providing catering services and operating of restaurants;
- (ii) Manufacturing and selling of meat products of Meat Factory;
- (iii) Manufacturing and selling of pastries of Rusk Factory; and
- (iv) Manufacturing and selling of bakery products of Bakeries and other.

Selected financial information as of March 31 and for the period then ended, summarized by the above business segments, was as follows (in Saudi Riyals 000's):

	Restaurants	Meat Factory	Rusk Factory	Bakeries and other	Total
<b>2013 (Unaudited)</b>					
Total segment sales	176,074	24,717	5,193	30,923	236,907
Inter-segment sales	-	(18,246)	(2,383)	(7,510)	(28,139)
Sales from external customers	176,074	6,471	2,810	23,413	208,768
Net income	35,209	6,947	345	3,962	46,463
Financial charges	297	-	-	-	297
Depreciation and amortization	8,512	965	532	2,467	12,476
Property, plant and equipment	328,468	32,208	7,830	136,337	504,843
Total assets	471,698	77,365	15,423	200,877	765,363
<b>2012 (Unaudited)</b>					
Total segment sales	161,282	22,335	5,771	27,145	216,533
Inter-segment sales	-	(15,078)	(2,513)	-	(17,591)
Sales from external customers	161,282	7,257	3,258	27,145	198,942
Net income	29,409	5,318	277	5,600	40,604
Financial charges	184	-	-	-	184
Depreciation and amortization	7,133	965	500	2,131	10,729
Property, plant and equipment	248,729	33,883	9,660	106,445	398,717
Total assets	411,441	83,951	17,625	122,002	635,019

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

**HERFY FOOD SERVICES COMPANY**  
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**Notes to the interim financial statements**  
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**4 Operating leases**

The Company has various operating leases for its restaurants, employees' accommodations and vehicles. Rental expenses for the three-month period ended March 31, 2013 were Saudi Riyals 9.8 million (2012: Saudi Riyals 8.5 million).

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

	March 31, 2013 (Unaudited)	March 31, 2012 (Unaudited)
Within one year	40,757,662	25,107,026
Between two and five years	93,287,370	76,859,926
Greater than five years	149,030,897	132,273,266
	<u>283,075,929</u>	<u>234,240,218</u>

**5 Earnings (loss) per share**

Earnings (loss) per share for the three-month periods ended March 31, 2013 and 2012 have been computed by dividing the operating income, non-operating loss and net income for such periods by the weighted average number of shares outstanding during such periods.

**6 Contingencies and commitments**

- (i) The Company is contingently liable for bank guarantees issued on behalf of the Company amounting to Saudi Riyals 2.7 million (2012: Saudi Riyals 0.1 million) in the normal course of business.
- (ii) The capital expenditure contracted by the Company but not incurred till March 31, 2013 is approximately Saudi Riyals 14.8 million (2012: Saudi Riyals 11.2 million).
- (iii) Also see Note 4 with respect to lease commitments.