

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

INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED
MARCH 31, 2016 AND LIMITED REVIEW
REPORT

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2016

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LIMITED REVIEW REPORT

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

Scope of review

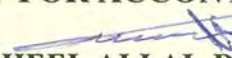
We have reviewed the accompanying interim balance sheet of Herfy Food Services Company (the "Company") as of March 31, 2016 and the interim statement of income and cash flows and changes in shareholders' equity for the three-month period then ended and the related notes which form an integral part of 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 standards generally accepted in Saudi Arabia.

SAUDI GROUP FOR ACCOUNTING & AUDITING


DAKHEEL ALI AL-DAKHEEL
LIC NO.(96)

Date: Rajab, 13, 1437 H
Corresponding to: April, 20, 2016



مكتب الرياض : ص.ب ١٦٩٩٤ الرمز البريدي ١١٤٧٤ هاتف ٢٠٦٢١٢٨ / ٤٧٧٧٧٠٦ (٠١١) 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 ٦٤٥١٩٥٠ / ٦٤٥١٩٨٠ (٠١٢) فاكس : ٦٤٥٢٣٤٠ (٠١٢)
مكتب الباحة : هاتف ٧٢٥٧٦٢٥ (٠١٧) فاكس : ٧٢٧١١٢٣ (٠١٧)

Hery Food Services Company
(A Saudi Joint Stock Company)
Interim Balance Sheet (Unaudited)

(All Amounts in Saudi Riyals Unless otherwise stated)

	Note No.	March 31,	
		2016	2015
Assets			
Current assets			
Cash and cash equivalents		47,100,172	37,441,623
Accounts receivable		25,068,269	21,979,077
Inventories		108,839,511	98,623,050
Prepayments and other receivables		83,283,807	79,116,725
Total Current Assets		264,291,759	237,160,475
Non-current assets			
Investment property		-	4,000,000
Property, plant and equipment		970,060,363	802,091,122
Total Non-Current Assets		970,060,363	806,091,122
Total Asstes		1,234,352,122	1,043,251,597
Liabilities			
Current liabilities			
Current maturity of long-term borrowings		91,304,538	43,362,000
Accounts payable		60,431,798	47,886,762
Accrued expenses and other liabilities		47,560,374	37,784,926
Zakat provision	(4)	6,707,370	5,650,000
Total Current Liabilities		206,004,080	134,683,688
Non-current liabilities			
Long-term borrowings		184,706,498	126,462,736
Employee termination benefits		54,579,559	49,769,507
		239,286,057	176,232,243
Total liabilities		445,290,137	310,915,931
Shareholders' Equity			
Share capital	(6)	462,000,000	462,000,000
Statutory reserve		122,579,134	102,404,503
Retained earnings		204,482,851	167,931,163
Total shareholders' equity		789,061,985	732,335,666
Total liabilities and shareholders ' equity		1,234,352,122	1,043,251,597

The accompanying notes form (1) to (7) 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	Three-month period ended March 31,	
		2016	2015
Sales (net)		283,552,937	265,198,960
Cost of sales		(199,213,215)	(178,328,087)
Gross Profit		84,339,722	86,870,873
<u>Operating expenses</u>			
Selling and marketing		(14,033,636)	(15,038,424)
General and administrative		(15,337,267)	(16,134,834)
Income from operations		54,968,819	55,697,615
<u>Other income (expenses)</u>			
Financial charges		(1,550,755)	(1,057,593)
Other		1,314,939	1,053,375
Income before zakat		54,733,003	55,693,397
Zakat		(1,125,000)	(1,150,000)
Net income for the period		53,608,003	54,543,397
<u>Earnings per share:</u>			
• Income from operations		1.19	1.21
• Net income for the period		1.16	1.18

The accompanying notes form (1) to (7) 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.	Three-month period ended March 31,	
		2016	2015
<u>Cash flow from operating activities</u>			
Net income for the period		53,608,003	54,543,397
<u>Adjustment for non-cash items</u>			
Depreciation		21,559,015	17,323,562
Provision for employee termination benefits		3,240,680	3,346,169
Provision for zakat		1,125,000	1,150,000
Amortization		249,566	248,253
(Reversal of) / provision for doubtful debts		-	(350,000)
Provision for slow moving inventory		(87)	(100,000)
Financial charges		1,550,755	-
Loss (Gain) on sale of property, plant and equipment		(98,492)	115,642
 <u>Change In working capital</u>			
Accounts receivable		(1,863,871)	(1,619,964)
Inventories		106,724	(7,386,658)
Prepayments and other receivables		13,715,257	11,631,243
Accounts payable		(8,312,619)	(234,828)
Accrued expenses and other liabilities		5,444,318	(865,214)
Employee termination benefits paid		(1,716,682)	(800,886)
Net cash generated from operating activities		88,607,567	77,000,716
 <u>Cash flow from investing activities</u>			
Purchase of property, plant and equipment		(54,789,336)	(78,335,731)
Proceeds from sale of property and equipment		770,652	90,197
Net cash utilized In investing activities		(54,018,684)	(78,245,534)
 <u>Cash flow from financing activities</u>			
Proceeds from long-term borrowings		14,999,588	20,576,749
Repayments of long-term borrowings		(23,515,000)	(10,670,000)
Financial charges paid		(1,881,610)	-
Net cash utilized in financing activities		(10,397,022)	9,906,749
Net change in cash and cash equivalents		24,191,860	8,661,931
Cash and cash equivalents at beginning of period		22,908,312	28,779,692
Cash and cash equivalents at end of period		47,100,172	37,441,623

The accompanying notes form (1) to (7) 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	-	-	53,608,003	53,608,003
Transfer to statutory reserve	-	5,360,800	(5,360,800)	-
March 31, 2016 (unaudited)	<u>462,000,000</u>	<u>122,579,134</u>	<u>204,482,851</u>	<u>789,061,985</u>
January 1, 2015 (audited)	462,000,000	96,950,163	118,842,106	677,792,269
Net income for the period	-	-	54,543,397	54,543,397
Transfer to statutory reserve	-	5,454,340	(5,454,340)	-
March 31, 2015 (unaudited)	<u>462,000,000</u>	<u>102,404,503</u>	<u>167,931,163</u>	<u>732,335,666</u>

The accompanying notes form (1) to (7) an integral part of these financial statements.

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
Notes to interim financial statements (Unaudited)
For the Three-month period ended March 31, 2016

1- Genera 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 March 31, 2016, the total number of restaurants owned and leased by the Company were 38 and 269, respectively (2015 - 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 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 Rajab, 13, 1437 H (April, 20, 2016).

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
Notes to interim financial statements (Unaudited)
For the Three-month period ended March 31, 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, 2014.

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, 2014. 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

HERFY FOOD SERVICES COMPANY
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Notes to interim financial statements (Unaudited)
For the Three-month period ended March 31, 2016

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 year ended December 31, 2015 and 2014 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

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Notes to interim financial statements (Unaudited)
For the Three-month period ended March 31, 2016

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, 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

HERFY FOOD SERVICES COMPANY
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Notes to interim financial statements (Unaudited)
For the Three-month period ended March 31, 2016

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

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
Notes to interim financial statements (Unaudited)
For the Three-month period ended March 31, 2016

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 March 31, for Three-month period ended March 31, 2016, summarized by the above business segments, was as follows (in Saudi Riyals 000's)

2016 (unaudited)	Restaurants	Meat factory	Bakeries and other	Total
Total segment sales	241,177	29,159	45,463	315,799
Inter-segment sales		(22,486)	(9,760)	(32,246)
Sales from external customers	241,177	6,673	35,703	283,553
Operation Income	37,442	8,399	9,128	54,969
Net income	36,052	8,419	9,137	53,608
Financial charges	1,518	33	-	1,551
Depreciation and amortization	17,182	1,214	3,163	21,559
Property, plant and equipment	727,020	41,509	201,531	970,060
Total assets	902,559	86,012	245,781	1,234,352
2015 (unaudited)	Restaurants	Meat factory	Bakeries and other	Total
Total segment sales	226,663	29,297	40,276	296,236
Inter-segment sales		(22,468)	(8,569)	(31,037)
Sales from external customers	226,663	6,829	31,707	265,199
Operation Income	40,577	7,937	7,156	55,698
Net income	39,445	7,937	7,161	54,543
Financial charges	1,024	34	-	1,058
Depreciation and amortization	13,184	1,040	3,100	17,324
Property, plant and equipment	598,480	39,057	164,554	802,091
Total assets	753,835	77,469	211,948	1,043,252

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

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
Notes to interim financial statements (Unaudited)
For the Three-month period ended March 31, 2016

4- Zakat

	March 31,	
	2016	2015
January 1	5,582,370	4,500,000
Provision For the current year	1,125,000	1,150,000
March 31	6,707,370	5,650,000

Status of final assessments

The Company has filed its zakat return till the year ended December 31, 2014 with the DZIT. The Company obtained from the DZIT the final zakat assessments for all the years to 2014. The Company is in the process of filing the zakat return for the year ended December 31, 2015.

5- Operating leases

The Company has various operating leases for its restaurants, employees' accommodations and vehicles.

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,	
	2016	2015
Within one year	82,841,254	69,102,261
Between two and five years	241,616,358	210,066,588
Greater than five years	482,681,296	370,806,617
	807,138,908	649,975,466

6- 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 (March 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 period ended March 31, 2016 and 2015 has been computed by dividing the income from operations and net income for such periods by 46.2 million shares.

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Notes to interim financial statements (Unaudited)
For the Three-month period ended March 31, 2016

7- Contingencies and commitments

- (i) The Company is contingently liable for bank guarantees issued on behalf of the Company amounting to Saudi Riyals 1.5 million (2015: Saudi Riyals 1.3 million) in the normal course of business.
- (ii) The capital expenditure contracted by the Company but not incurred till March 31, 2016 is approximately Saudi Riyals 48.2 million (2015: Saudi Riyals 54.4 million).
- (iii) Also see Note 5 with respect to lease commitments.