

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

INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS
ENDED JUNE 30, 2012 AND INDEPENDENT
ACCOUNTANTS' 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, 2012

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INDEPENDENT ACCOUNTANTS' LIMITED REVIEW REPORT

July 17, 2012

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 June 30, 2012 and the related interim statements of income for the three-month and six-month periods ended June 30, 2012 and the interim statement of cash flows for the six-month period ended June 30, 2012 including 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.

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 the 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.

Conclusion

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

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

		June 30,	
	Note	2012 (Unaudited)	2011 (Unaudited)
Assets			
Current assets			
Cash and cash equivalents		54,488,564	59,287,867
Accounts receivable		20,041,996	22,517,948
Inventories		67,405,295	60,846,366
Prepayments and other receivables		60,240,314	47,571,263
		<u>202,176,169</u>	<u>190,223,444</u>
Non-current assets			
Investment properties		4,000,000	4,000,000
Deferred charges		444,137	579,853
Property, plant and equipment		436,584,818	346,263,749
		<u>441,028,955</u>	<u>350,843,602</u>
Total assets		<u>643,205,124</u>	<u>541,067,046</u>
Liabilities			
Current liabilities			
Current maturity of long-term borrowings		12,766,666	10,679,000
Accounts payable		45,140,667	37,425,837
Accrued and other liabilities		45,298,484	36,186,981
Zakat payable		2,200,000	1,960,603
		<u>105,405,817</u>	<u>86,252,421</u>
Non-current liabilities			
Long-term borrowings		21,782,001	15,875,000
Employee termination benefits		33,301,002	29,096,596
		<u>55,083,003</u>	<u>44,971,596</u>
Total liabilities		<u>160,488,820</u>	<u>131,224,017</u>
Shareholders' equity			
Share capital	1	300,000,000	270,000,000
Statutory reserve		48,102,566	24,446,449
Retained earnings		134,613,738	115,396,580
Total shareholders' equity		<u>482,716,304</u>	<u>409,843,029</u>
Total liabilities and shareholders' equity		<u>643,205,124</u>	<u>541,067,046</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 June 30,		Six-month period ended June 30,	
		2012 (Unaudited)	2011 (Unaudited)	2012 (Unaudited)	2011 (Unaudited)
Sales		218,319,039	188,420,945	417,261,421	347,717,211
Cost of sales		(147,822,317)	(127,152,891)	(285,065,927)	(235,822,916)
Gross profit		70,496,722	61,268,054	132,195,494	111,894,295
Operating expenses					
Selling and marketing		(8,217,701)	(9,445,493)	(16,623,979)	(17,219,428)
General and administrative		(12,482,005)	(10,947,730)	(23,683,696)	(19,896,175)
Management fees		(1,520,029)	(1,217,202)	(2,775,832)	(2,223,853)
Income from operations		48,276,987	39,657,629	89,111,987	72,554,839
Other income (expenses)					
Financial charges		(185,748)	(116,924)	(369,728)	(253,952)
Other - net		2,365,697	715,480	3,368,963	1,403,671
Income before zakat		50,456,936	40,256,185	92,111,222	73,704,558
Zakat		(1,150,000)	(900,000)	(2,200,000)	(1,800,000)
Net income for the period		49,306,936	39,356,185	89,911,222	71,904,558
Earnings per share:					
▪ Operating income	5	1.61	1.32	2.97	2.42
▪ Non-operating income (loss)		0.03	(0.01)	0.03	(0.02)
▪ Net income for the period		1.64	1.31	3.00	2.40

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 six-month period ended June 30	
	2012 (Unaudited)	2011 (Unaudited)
Cash flow from operating activities		
Net income for the period	89,911,222	71,904,558
<u>Adjustments for non-cash items</u>		
Depreciation	21,480,734	19,208,926
Provision for slow moving inventory	100,000	-
Amortization	64,822	118,774
Provision for doubtful debts	-	150,000
Gain on sale of property, plant and equipment	(704,512)	(180,354)
<u>Changes in working capital</u>		
Accounts receivable	366,932	1,449,824
Inventories	(2,343,762)	(12,671,084)
Prepayments and other receivables	(2,899,795)	3,235,751
Accounts payable	9,521,341	12,043,911
Accrued and other liabilities	8,222,398	6,381,065
Zakat payable	(1,560,603)	(1,489,397)
Employee termination benefits	3,673,855	2,980,208
Net cash generated from operating activities	<u>125,832,632</u>	<u>103,132,182</u>
Cash flow from investing activities		
Purchase of property and equipment	(77,025,483)	(44,914,229)
Proceeds from sale of property and equipment	1,500,090	684,452
Net cash utilized in investing activities	<u>(75,525,393)</u>	<u>(44,229,777)</u>
Cash flow from financing activities		
Proceeds from long-term borrowings	2,007,000	-
Repayments of long-term borrowings	(8,712,333)	(7,300,000)
Dividends paid	(46,783,332)	(42,300,000)
Net cash utilized in financing activities	<u>(53,488,665)</u>	<u>(49,600,000)</u>
Net (decrease) increase in cash and cash equivalents	(3,181,426)	9,302,405
Cash and cash equivalents at beginning of period	<u>57,669,990</u>	<u>49,985,462</u>
Cash and cash equivalents at end of period	<u>54,488,564</u>	<u>59,287,867</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 and six-month periods ended June 30, 2012 (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 June 30, 2012, the total number of restaurants owned and leased by the Company were 20 and 173, respectively (2011 - 20 owned and 157 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 June 30, 2012 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 July 17, 2012.

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, 2011.

HERFY FOOD SERVICES COMPANY
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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 at 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 June 30, 2012 and 2011, 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 three-month periods ended June 30, 2012 and 2011, 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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(All amounts in Saudi Riyals unless otherwise stated)

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.

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Notes to the interim financial statements
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(All amounts in Saudi Riyals unless otherwise stated)

2.17 Revenues

Restaurant sales are made on 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 June 30 and for the six-month periods 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
2012 (Unaudited)					
Total segment sales	339,063	46,047	12,143	58,271	455,524
Inter-segment sales	-	(32,178)	(4,917)	(1,168)	(38,263)
Sales from external customers	339,063	13,869	7,226	57,103	417,261
Net income	69,601	10,900	778	8,632	89,911
Financial charges	370	-	-	-	370
Depreciation and amortization	15,914	1,815	959	2,858	21,546
Property, plant and equipment	275,831	33,631	9,212	117,911	436,585
Total assets	406,777	81,045	17,921	137,462	643,205
2011 (Unaudited)					
Total segment sales	277,072	37,886	14,028	50,268	379,254
Inter-segment sales	-	25,664	5,873	-	31,537
Sales from external customers	277,072	12,222	8,155	50,268	347,717
Net income	51,508	9,773	1,641	8,983	71,905
Financial charges	254	-	-	-	254
Depreciation and amortization	13,505	1,969	1,047	2,807	19,328
Property, plant and equipment	240,749	35,730	9,598	60,187	346,264
Total assets	368,058	68,262	18,412	86,335	541,067

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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(All amounts in Saudi Riyals unless otherwise stated)

4 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, 2012 were Saudi Riyals 17.8 million (2011: Saudi Riyals 15.2 million).

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

	June 30, 2012 (Unaudited)	June 30, 2011 (Unaudited)
Within one year	31,201,039	28,734,434
Between two and five years	80,804,207	64,449,943
Greater than five years	139,451,215	89,929,774
	251,456,461	183,114,151

5 Earnings (loss) per share

Earnings (loss) per share for the six-month periods ended June 30, 2012 and 2011 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 giving retrospective effect for the increase in number shares during the year ended December 31, 2011.

6 Contingencies and commitments

- (i) The Company is contingently liable for bank guarantees issued on behalf of the Company amounting to Saudi Riyals 0.1 million (2011: Saudi Riyals 0.1 million) in the normal course of business.
- (ii) The capital expenditure contracted by the Company but not incurred till June 30, 2012 is approximately Saudi Riyals 18.5 million (2011: Saudi Riyals 12.9 million).
- (iii) Also see Note 4 with respect to lease commitments.