

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

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

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 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 September 30, 2016, and the interim statement of income for the three-month and nine-month periods ended September 30, 2016, and the statements of cash flows and changes in shareholders' equity for the nine-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: 18 Muharram 1438
Corresponding to: 19 October 2016



مكتب الرياض : ص.ب ١٦٩٩٤ الرمز البريدي ١١٤٧٤ هاتف ٠٦/٢٠٦٢١٢٨ (٠١١) ٤٧٧٧٦٥٣ فاكس : (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 ٦٤٥١٩٨٠/٦٤٥١٩٥٠ (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	September 30	
		2016	2015
<u>Assets</u>			
<u>Current assets</u>			
Cash and cash equivalents		117,884,260	55,375,042
Accounts receivable		25,827,547	21,355,733
Inventories		92,055,785	106,287,813
Prepayments and other receivables		118,957,361	83,202,889
Total Current Assets		354,724,953	266,221,477
<u>Non-current assets</u>			
Investment property		-	2,000,000
Property, plant and equipment		1,004,424,089	888,794,160
Total Non-Current Assets		1,004,424,089	890,794,160
Total Asstes		1,359,149,042	1,157,015,637
<u>Liabilities</u>			
<u>Current liabilities</u>			
Current maturity of long-term borrowings		121,151,842	84,612,000
Accounts payable		71,203,190	66,851,549
Accrued expenses and other liabilities		75,855,941	41,511,040
Provision for zakat	(4)	5,947,222	4,582,370
Total Current Liabilities		274,158,195	197,556,959
<u>Non-current liabilities</u>			
Long-term borrowings		270,378,495	214,367,750
Employee termination benefits		57,432,269	54,858,309
Total Non-current Liabilities		327,810,764	269,226,059
Total liabilities		601,968,959	466,783,018
<u>Shareholders' Equity</u>			
Share capital		462,000,000	462,000,000
Statutory reserve		133,430,944	112,696,197
Retained earnings		161,749,139	115,536,422
Total shareholders' equity		757,180,083	690,232,619
Total liabilities and shareholders ' equity		1,359,149,042	1,157,015,637

The accompanying notes form (1) to (8) 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 periods ended September 30		Nine-month periods ended September 30	
		2016	2015	2016	2015
Sales (net)		315,169,576	279,470,709	876,453,061	804,033,282
Cost of sales		(220,542,525)	(194,116,689)	(620,452,392)	(556,791,264)
Gross Profit		94,627,051	85,354,020	256,000,669	247,242,018
<u>Operating expenses</u>					
Selling and marketing		(14,254,750)	(13,574,628)	(39,730,429)	(41,789,322)
General and administrative		(18,324,582)	(14,733,112)	(48,551,506)	(43,367,564)
Income from operations		62,047,719	57,046,280	167,718,734	162,085,132
<u>Other income (expenses)</u>					
Financial charges		(2,057,903)	(1,537,050)	(4,948,595)	(3,571,124)
Other - net		18,782	2,141,992	2,605,962	1,946,342
Income before zakat		60,008,598	57,651,222	165,376,101	160,460,350
Zakat	(4)	(1,175,000)	(1,000,000)	(3,250,000)	(3,000,000)
Net income for the period		58,833,598	56,651,222	162,126,101	157,460,350
<u>Earnings per share:</u>					
• Income from operations		1.34	1.23	3.63	3.51
• Net income for the period		1.27	1.23	3.51	3.41

The accompanying notes form (1) to (8) 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 nine-month period ended September 30	
		2016	2015
<u>Cash flow from operating activities</u>			
Net income for the period		162,126,101	157,460,350
<u>Adjustment for non-cash items</u>			
Depreciation		64,613,446	57,815,946
Provision for employee termination benefits		7,900,000	10,294,165
Provision for zakat	(4)	3,250,000	3,000,000
Provision for Impairment of Investment		–	2,000,000
Provision for slow moving inventory		(8,082)	–
Loss (Gain) on sale of property, plant and equipment		(288,186)	(1,633,896)
Accounts receivable		(2,623,149)	(1,346,623)
Inventories		16,898,444	(15,151,421)
Prepayments and other receivables		(21,958,297)	7,545,079
Accounts payable		2,458,773	18,729,959
Accrued expenses and other liabilities		33,739,885	2,860,900
Zakat paid	(4)	(2,885,148)	(2,917,630)
Employee termination benefits paid		(3,523,290)	(2,660,080)
Net cash generated from operating activities		259,700,497	235,996,749
<u>Cash flow from investing activities</u>			
Purchase of property, plant and equipment		(143,290,210)	(213 500 046)
Proceeds from sale of property and equipment		13,915,074	13,006,897
Net cash utilized In investing activities		(129,375,136)	(200,493,149)
<u>Cash flow from financing activities</u>			
Proceeds from long-term borrowings		174,566,314	170,576,750
Repayments of long-term borrowings		(69,515,727)	(34,465,000)
Dividend paid		(140,400,000)	(145,020,000)
Net cash utilized in financing activities		(35,349,413)	(8,908,250)
Net change in cash and cash equivalents		94,975,948	26,595,350
Cash and cash equivalents at beginning of period		22,908,312	28,779,692
Cash and cash equivalents at end of period		117,884,260	55,375,042

The accompanying notes form (1) to (8) 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	-	-	162,126,101	162,126,101
Transfer to statutory reserve	-	16,212,610	(16,212,610)	-
Dividend paid	-	-	(140,400,000)	(140,400,000)
Septmber 30, 2016 (unaudited)	462,000,000	133,430,944	161,749,139	757,180,083
January 1, 2015 (audited)	462,000,000	96,950,163	118,842,106	677,792,269
Net income for the period	-	-	157,460,350	157,460,350
Transfer to statutory reserve	-	15,746,034	(15,746,034)	-
Dividends paid	-	-	(145,020,000)	(145,020,000)
Septmber30. 2015 (audited)	462,000,000	112,696,197	115,536,422	690,232,619

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 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 September 30, 2016, the total number of restaurants owned and leased by the Company were 39 and 284, respectively (2015 - 35 owned and 255 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 18 Muharram 1438 H (19 October 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 nine-month periods ended September 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 customers. 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 September 30 and for the nine-month periods then ended, 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	760,417	89,277	122,751	972,445
Inter-segment sales	-	(70,194)	(25,798)	(95,992)
Sales from external customers	760,417	19,083	96,953	876,453
Net income	115,911	23,347	22,868	162,126
Financial charges	4,736	213	-	4,949
Depreciation and amortization	50,268	3,684	10,661	64,613
Property, plant and equipment	780,679	36,513	187,232	1,004,424
Total assets	1,013,922	72,586	272,641	1,359,149
2015 (audited)	Restaurants	Meat factory	Bakeries and other	Total
Total segment sales	694,298	89,855	113,501	897,654
Inter-segment sales	-	(69,132)	(24,489)	(93,621)
Sales from external customers	694,298	20,723	89,012	804,033
Net income	115,393	23,018	19,049	157,460
Financial charges	3,486	85	-	3,571
Depreciation and amortization	44,525	3,737	9,554	57,816
Property, plant and equipment	658,174	38,329	192,291	888,794
Total assets	826,023	85,364	245,629	1,157,016

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

4- ZAKAT

	September 30,	
	2016	2015
January 1, (Audited)	5,582,370	4,500,000
Provisions for current period	3,250,000	3,000,000
Payment	(2,885,148)	(2,917,630)
September 30, (unaudited)	5,947,222	4,582,370

5- Operating leases

The Company has various operating leases for its restaurants, employees' accommodations and vehicles. Rental expenses for the nine-month period ended September 30, 2016 were Saudi Riyals -62 million (2015: Saudi Riyals 43.8 million).

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

	September 30	
	2016	2015
Within one year	74,754,202	73,848,520
Between two and five years	241,874,302	229,821,705
Greater than five years	449,923,339	422,462,137
	766,551,843	726,132,362

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 (September 30, 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 nine-month periods ended September 30, 2016 and 2015 has been computed by dividing the income from operations and net income for such periods by 46.2 million shares.

7- 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 1,1 million) in the normal course of business.
- (ii) The capital expenditure contracted by the Company but not incurred till September 30, 2016 is approximately Saudi Riyals 46,5 million (2015: Saudi Riyals 51,7 million).
- (iii) Also see Note 5 with respect to lease commitments.

8- Comparative Figures

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