

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)

INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED
MARCH 31, 2015 AND
LIMITED REVIEW REPORT

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(A Saudi Joint Stock Company)
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FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2015

	Page
Limited review report	1
Interim balance sheet	2
Interim income statement	3
Interim cash flow statement	4
Interim statement of changes in shareholders' equity	5
Notes to the interim financial statements	6 - 11



LIMITED REVIEW REPORT

April 19, 2015

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, 2015 and the interim statements of income and cash flows and changes in shareholders' equity for the three-month period then ended, and the related notes from (1) to (8) 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.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Omar M. Al Sagga', is written over a horizontal line.

By: _____
Omar M. Al Sagga
License Number 369

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

	Note	March 31,	
		2015 (Unaudited)	2014 (Unaudited)
Assets			
Current assets			
Cash and cash equivalents		37,441,623	74,076,617
Accounts receivable		21,979,077	18,527,646
Inventories		98,623,050	82,266,465
Prepayments and other receivables		79,116,725	79,936,642
		<u>237,160,475</u>	<u>254,807,370</u>
Non-current assets			
Investment property		4,000,000	4,000,000
Property, plant and equipment		802,091,122	572,362,964
		<u>806,091,122</u>	<u>576,362,964</u>
Total assets		<u>1,043,251,597</u>	<u>831,170,334</u>
Liabilities			
Current liabilities			
Borrowings		43,362,000	28,466,666
Accounts payable		47,886,762	41,780,049
Accrued expenses and other liabilities		37,784,926	37,409,948
Zakat payable	4	5,650,000	3,477,975
		<u>134,683,688</u>	<u>111,134,638</u>
Non-current liabilities			
Borrowings		126,462,736	33,275,233
Employee termination benefits		49,769,507	37,916,130
		<u>176,232,243</u>	<u>71,191,363</u>
Total liabilities		<u>310,915,931</u>	<u>182,326,001</u>
Shareholders' equity			
Share capital	6	462,000,000	330,000,000
Statutory reserve		102,404,503	81,170,370
Retained earnings		167,931,163	237,673,963
Total shareholders' equity		<u>732,335,666</u>	<u>648,844,333</u>
Total liabilities and shareholders' equity		<u>1,043,251,597</u>	<u>831,170,334</u>
Contingencies and commitments	7		

The notes on pages 6 to 11 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,	
		2015 (Unaudited)	2014 (Unaudited)
Sales		265,198,960	215,928,179
Cost of sales		(178,328,087)	(144,610,865)
Gross profit		86,870,873	71,317,314
Operating expenses			
Selling and marketing		(15,038,424)	(8,126,949)
General and administrative		(16,134,834)	(14,015,854)
Income from main operations		55,697,615	49,174,511
Other income (expenses)			
Financial charges		(1,057,593)	(409,885)
Other – net		1,053,375	541,282
Income before zakat		55,693,397	49,305,908
Zakat	4	(1,150,000)	(1,300,000)
Net income for the period		54,543,397	48,005,908
Earnings per share:	6		
Income from main operations		1.21	1.06
Net income for the period		1.18	1.04

The notes on pages 6 to 11 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	
	2015 (Unaudited)	2014 (Unaudited)
Cash flow from operating activities		
Net income for the period	54,543,397	48,005,908
<u>Adjustment for non-cash items</u>		
Depreciation	17,323,562	12,394,290
Provision for employee termination benefits	3,346,169	2,022,213
Provision for zakat	1,150,000	1,300,000
Amortization of deferred charges	248,253	199,726
Reversal of provision for doubtful debts	(350,000)	(29,421)
Reversal of provision for slow moving inventory	(100,000)	-
Loss (gain) on sale of property, plant and equipment	115,642	(23,831)
<u>Changes in working capital</u>		
Accounts receivable	(1,619,964)	(1,613,501)
Inventories	(7,386,658)	(4,257,092)
Prepayments and other receivables	11,631,243	(14,307,174)
Accounts payable	(234,828)	2,900,230
Accrued expenses and other liabilities	(865,214)	(1,393,284)
Zakat paid	-	(2,822,025)
Employee termination benefits paid	(800,886)	(2,371,950)
Net cash generated from operating activities	77,000,716	40,004,089
Cash flow from investing activities		
Purchase of property, plant and equipment	(78,335,731)	(19,700,303)
Proceeds from sale of property, plant and equipment	90,197	588,306
Net cash utilized in investing activities	(78,245,534)	(19,111,997)
Cash flow from financing activities		
Proceeds from long-term borrowings	20,576,749	-
Repayments of long-term borrowings	(10,670,000)	(4,082,000)
Net cash generated from / (utilized in) financing activities	9,906,749	(4,082,000)
Net change in cash and cash equivalents	8,661,931	16,810,092
Cash and cash equivalents at beginning of period	28,779,692	57,266,525
Cash and cash equivalents at end of period	37,441,623	74,076,617

The notes on pages 6 to 11 form an integral part of these interim financial statements.

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
Interim statement of changes in shareholders' equity
 (All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Total
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)	462,000,000	102,404,503	167,931,163	732,335,666
January 1, 2014 (audited)	330,000,000	76,369,779	194,468,646	600,838,425
Net income for the period	-	-	48,005,908	48,005,908
Transfer to statutory reserve	-	4,800,591	(4,800,591)	-
March 31, 2014 (unaudited)	330,000,000	81,170,370	237,673,963	648,844,333

The notes on pages 6 to 11 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, 2015 (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, 2015, the total number of restaurants owned and leased by the Company were 32 and 230, respectively (2014 - 20 owned and 191 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 cancel 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 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 April 19, 2015.

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").

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.

HERFY FOOD SERVICES COMPANY

(A Saudi Joint Stock Company)

Notes to the interim financial statements for the three-month period ended March 31, 2015 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

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, 2014.

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 interim 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 interim income statement.

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.

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 March 31, 2015 and 2014, are recognized in the interim income statement.

2.6 Cash and cash equivalents

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

HERFY FOOD SERVICES COMPANY

(A Saudi Joint Stock Company)

Notes to the interim financial statements for the three-month period ended March 31, 2015 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

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 interim 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 interim income statement.

2.8 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost of raw materials is determined using the weighted average method. The cost of finished products, calculated using the retail method by applying a gross margin to sale value, includes 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 interim 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 interim income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the interim 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 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 interim income statement.

HERFY FOOD SERVICES COMPANY

(A Saudi Joint Stock Company)

Notes to the interim financial statements for the three-month period ended March 31, 2015 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

2.11 Borrowings

Borrowings are recognized at proceeds received, net of transaction costs incurred. Borrowing costs are charged to the interim income statement.

Deferred charges include loan approval fees and related costs on a loan from Saudi Industrial Development Fund ("SIDF"). Such charges, shown net of borrowings, are amortized over a period of five years.

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 interim 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 interim 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 recognises 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 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 rebates.

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 interim 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.

HERFY FOOD SERVICES COMPANY**(A Saudi Joint Stock Company)****Notes to the interim financial statements for the three-month period ended March 31, 2015 (Unaudited)**

(All amounts in Saudi Riyals unless otherwise stated)

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; and
- (iii) Manufacturing and selling of bakery products of Bakeries and Cake Factory, presented together as 'Bakeries and other'

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

	Restaurants	Meat Factory	Bakeries and other	Total
2015 (Unaudited)				
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
Net income	39,445	7,937	7,161	54,543
Financial charges	1,024	34	-	1,058
Depreciation	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
2014 (Unaudited)				
Total segment sales	182,751	25,514	35,119	243,384
Inter-segment sales	-	(17,773)	(9,683)	(27,456)
Sales from external customers	182,751	7,741	25,436	215,928
Net income	35,703	7,008	5,295	48,006
Financial charges	410	-	-	410
Depreciation	8,656	991	2,747	12,394
Property, plant and equipment	393,080	39,983	139,300	572,363
Total assets	577,359	86,175	167,636	831,170

Refer to Note 1 for information on Rusk Factory. The results of this particular line of business are presented within 'Bakeries and other' segment. The Company's operations are only conducted in the Kingdom of Saudi Arabia.

4 Zakat

	2015	2014
January 1 (audited)	4,500,000	5,000,000
Provisions		
For the current period	1,150,000	1,300,000
Payments	-	(2,822,025)
March 31 (unaudited)	<u>5,650,000</u>	<u>3,477,975</u>

Status of final assessments

The Company has filed its zakat return till the year ended December 31, 2013 and obtained the final zakat assessments for all the years upto 2007. The DZIT has not finalized the assessments for the years from 2008 to 2013. The Company is in the process of filing the zakat return for the year ended December 31, 2014.

HERFY FOOD SERVICES COMPANY**(A Saudi Joint Stock Company)****Notes to the interim financial statements for the three-month period ended March 31, 2015 (Unaudited)**

(All amounts in Saudi Riyals unless otherwise stated)

5 Operating leases

The Company has various operating leases for its restaurants, employees' accommodation 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,	
	2015	2014
	(Unaudited)	(Unaudited)
Within one year	69,102,261	50,092,404
Between two and five years	210,066,588	139,986,353
Greater than five years	370,806,617	253,549,103
	<u>649,975,466</u>	<u>443,627,860</u>

6 Share Capital and 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, 2014: 33 million shares with a par value of Saudi Riyals 10 each).

In an extra-ordinary general assembly meeting held on July 6, 2014, the shareholders resolved to increase the share capital of the Company from Saudi Riyals 330 million to Saudi Riyals 462 million. Such increase in share capital of Saudi Riyals 132 million was affected by transferring Saudi Riyals 132 million from retained earnings to share capital. Accordingly, the number of shares increased from 33 million to 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 periods ended March 31, 2015 and 2014 has been computed by dividing the income from main operations and net income for such periods by 46.2 million shares giving retrospective effect for the increase in number of shares in July 2014.

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 (2014: Saudi Riyals 2.9 million) in the normal course of business.
- (ii) The capital expenditure contracted by the Company but not incurred till March 31, 2015 is approximately Saudi Riyals 27.3 million (2014: Saudi Riyals 24.8 million).
- (iii) Also see Note 5 with respect to lease commitments.

8 Comparatives figures

Certain reclassifications have been made to the 2014 interim financial statements to conform with the current period presentation.