

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

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016 AND  
INDEPENDENT AUDITORS' REPORT .

HERFY FOOD SERVICES COMPANY  
(A Saudi Joint Stock Company)  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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## INDEPENDENT AUDITORS' REPORT

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

**Scope of Audit**

We have audited the accompanying balance sheet of Herfy Food Services Company (the "Company") as of December 31, 2016 and the statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes (1) to (27) which form an integral part of the financial statements. These financial statements, which were prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

**Unqualified Opinion**

In our opinion, such financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Company; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of financial statements.

## SAUDI GROUP FOR ACCOUNTING &amp; AUDITING

DAKHEEL ALI AL-DAKHEEL  
LIC NO.(96)



Date: JUMADA'I, 23, 1438 H)  
Corresponding to: Feb, 20, 2017

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

Hery Food Services Company  
(A Saudi Joint Stock Company)

Balance Sheet

(All Amounts in Saudi Riyals Unless otherwise stated)

		December 31,	
	Note	2 016	2 015
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	( 5 )	73 225 799	22 908 312
Accounts receivable	( 6 )	29 513 293	23 204 398
Inventories	( 7 )	101 762 034	108 946 148
Prepayments and other receivables	( 8 )	109 434 768	96 999 064
		<b>313 935 894</b>	<b>252 057 922</b>
<b>Non-current assets</b>			
Investment property	( 9 )	-	-
Property, plant and equipment	( 10 )	1 038 254 566	939 374 212
<b>Total non-current assets</b>		<b>1 038 254 566</b>	<b>939 374 212</b>
<b>Total Asstes</b>		<b>1 352 190 460</b>	<b>1 191 432 134</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Current maturity of long-term borrowings	( 11 )	122 076 660	87 730 000
Accounts payable	( 12 )	61 875 310	68 744 417
Accrued expenses and other liabilities	( 13 )	50 701 487	42 116 056
Zakat Provision	( 14 )	6 947 222	5 582 370
		<b>241 600 679</b>	<b>204 172 843</b>
<b>Non-current liabilities</b>			
Long-term borrowings	( 11 )	238 477 661	198 749 750
Employee termination benefits	( 15 )	59 562 018	53 055 559
<b>Total non-current liabilities</b>		<b>298 039 679</b>	<b>251 805 309</b>
<b>Total liabilities</b>		<b>539 640 358</b>	<b>455 978 152</b>
<b>Shareholders' Equity</b>			
Share capital	( 17 )	462 000 000	462 000 000
Statutory reserve	( 18 )	138 967 946	117 218 334
Retained earnings		211 582 156	156 235 648
<b>Total shareholders' Equity</b>		<b>812 550 102</b>	<b>735 453 982</b>
<b>Total liabilities and shareholders ' equity</b>		<b>1 352 190 460</b>	<b>1 191 432 134</b>

The accompanying notes form (1) to (27) an integral part of these financial statements.

Hery Food Services Company  
(A Saudi Joint Stock Company)  
Income Statement  
(All Amounts in Saudi Riyals Unless otherwise stated)

	<u>Note</u>	<b>Year ended December 31,</b>	
		<b>2 016</b>	<b>2 015</b>
Sales		1 156 683 409	1 077 005 189
Cost of sales		( 809 080 184)	( 756 209 253)
<b>Gross Profit</b>		<b>347 603 225</b>	<b>320 795 936</b>
<b>Operating expenses</b>			
Selling and marketing	( 19 )	( 58 273 972)	( 56 059 057)
General and administrative	( 20 )	( 63 676 131)	( 56 656 380)
<b>Income from operations</b>		<b>225 653 122</b>	<b>208 080 499</b>
<b>Other income (expenses)</b>			
Financial charges	(11)	( 7 311 385)	( 3 804 606)
Other -net	(21)	3 404 383	2 405 820
<b>Income before zakat</b>		<b>221 746 120</b>	<b>206 681 713</b>
Zakat	(14)	( 4 250 000)	( 4 000 000)
<b>Net income for the year</b>		<b>217 496 120</b>	<b>202 681 713</b>
<b>Earnings per share:</b>	(23)		
• Income from operations		4.88	4.50
• Net income for the year		4.71	4.39

The accompanying notes form (1) to (27) an integral part of these financial statements.

Hery Food Services Company  
(A Saudi Joint Stock Company)

Cash flow statement

(All Amounts in Saudi Riyals Unless otherwise stated)

	Note	Year ended December 31,	
		2016	2015
<b>Cash flow from operating activities</b>			
Net income for the year		217 496 120	202 681 713
<b><u>Adjustment for non-cash items</u></b>			
Depreciation	(10)	79 818 570	81 435 844
Provision for employee termination benefits	(15)	10 290 484	11 795 036
Provision for zakat	(14)	4 250 000	4 000 000
Provision for Impairment of Investment	(9)	-	4 000 000
(Reversal of) provision for doubtful debts	(6)	-	( 557 877)
(Reversal of) Provision for slow moving inventory	(7)	( 8 081)	( 151 790)
Financial charges		7 311 385	3 804 606
(Gain) on sale of property, plant and equipment	(21)	( 288 186)	( 2 288 188)
<b><u>Change In working capital</u></b>			
Accounts receivable	(6)	( 6 308 895)	( 2 637 411)
Inventories	(7)	7 192 195	( 17 657 966)
Prepayments and other receivables	(8)	( 12 435 704)	( 6 251 094)
Accounts payable	(12)	( 6 869 107)	20 622 827
Accrued expenses and other liabilities	(13)	6 627 069	2 368 194
Zakat paid	(14)	( 2 885 148)	( 2 917 630)
Employee termination benefits paid	(15)	( 3 784 025)	( 5 963 701)
<b>Net cash generated from operating activities</b>		<b>300 406 677</b>	<b>292 282 563</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	(10)	( 178 517 403)	( 289 051 971)
Proceeds from sale of property and equipment	(10)	3 063 294	16 285 276
<b>Net cash utilized In investing activities</b>		<b>( 175 454 109)</b>	<b>( 272 766 695)</b>
<b>Cash flow from financing activities</b>			
Proceeds from long-term borrowings	(11)	176 026 314	180 576 750
Repayments of long-term borrowings	(11)	( 101 951 741)	( 56 965 000)
Dividend paid	(26)	( 140 400 000)	( 145 020 000)
Financial charges paid		( 8 309 654)	( 3 978 998)
<b>Net cash utilized in financing activities</b>		<b>( 74 635 081)</b>	<b>( 25 387 248)</b>
Net change in cash and cash equivalents		<b>50 317 487</b>	<b>( 5 871 380)</b>
Cash and cash equivalents at beginning of the yaer		22 908 312	28 779 692
<b>Cash and cash equivalents at end of the year</b>	(5)	<b>73 225 799</b>	<b>22 908 312</b>

The accompanying notes form (1) to (27) an integral part of these financial statements.

Hery Food Services Company  
(A Saudi Joint Stock Company)  
Statement of Changes in Shareholders' Equity  
(All Amounts in Saudi Riyals Unless otherwise stated)

Description	Note	Share Capital	Statutory Reserve	Retained earning	Total
<b>January 1, 2016</b>		462 000 000	117 218 334	156 235 648	735 453 982
Net income for the year		-	-	217 496 120	217 496 120
Transfer to statutory reserve	( 18 )	-	21 749 612	( 21 749 612 )	-
Dividend paid	( 26 )	-	-	( 140 400 000 )	( 140 400 000 )
<b>December 31, 2016</b>		<b>462 000 000</b>	<b>138 967 946</b>	<b>211 582 156</b>	<b>812 550 102</b>
<b>January 1, 2015</b>		462 000 000	96 950 163	118 842 106	677 792 269
Net income for the year		-	-	202 681 713	202 681 713
Transfer to statutory reserve		-	20 268 171	( 20 268 171 )	-
Dividends paid		-	-	( 145 020 000 )	( 145 020 000 )
<b>December 31, 2015</b>		<b>462 000 000</b>	<b>117 218 334</b>	<b>156 235 648</b>	<b>735 453 982</b>

The accompanying notes form (1) to (27) an integral part of these financial statements.



## **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 December 31, 2016, the total number of restaurants owned and leased by the Company were 39 and 289, 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 financial statements were authorized for issue by the Company's Board of Directors on JUMADA'I, 23, 1438 H (Feb, 20, 2017).



## **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 ("SOC PA").

### **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 reporting date 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. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management regularly assesses the basis of estimates and changes are accounted for prospectively. The estimates and assumptions that have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

A provision for impairment of trade and other 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 180 days overdue) are considered Indicators that the trade 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.

#### **(b) Provision for inventory obsolescence**

Provision for inventory obsolescence is maintained at a level considered adequate to provide for potential loss on inventory items. The level of allowance is determined and guided by the Company's policy and other factors affecting the obsolescence of inventory items. An evaluation of inventories, designed to identify potential charges to provision, is performed on a continuous basis throughout the year. Management uses judgment based on the best available facts and circumstances, including but not limited to evaluation of individual inventory items' future utilization. The amount and timing of recorded expenses for any period would therefore differ based on the judgments or estimates made. An increase in provision for inventory obsolescence would increase the Company's recorded expenses and decrease current assets.

#### **(c) Property and equipment**

Management assesses useful lives and residual value of property and equipment on intended use of assets and the economic lives of the assets. Subsequent changes in circumstances such as technological advances could result in the actual useful lives or residual values differing from

the initial estimates. Management has reviewed the residual value and useful lives of major property and equipment and determined that no adjustment is necessary.

### **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.

### **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. 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 years ended December 31, 2016 and 2015, are recognized in the income statement.

### **2-6 Cash and cash equivalents**

Cash and cash equivalents include cash on hand and in banks and other short-term highly liquidity 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 of raw materials, packing materials, spare parts and operational supplies 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 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:

	<b>Number of years</b>
Buildings on owned land	20
Buildings on leased land	Shorter of lease term and useful life
Machinery and equipment	10-25
Furniture & Office equipment	7
Motor vehicles	5
Software	7

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 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.

#### **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 me 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 ("GAZT"). 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 of 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.

Interim dividends are recorded as liability in the period in which they are approved by the Board of Directors.

## **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- Financial instruments and risk management**

The Company's activities expose it to a variety of financial risks: market risk (Including currency risk and fair value and cash flow interest rate risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by senior management under policies approved by the board of directors. The most important types of risk are credit risk, currency risk and fair value and cash flow interest rate risks.

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivable, borrowings, accounts payable, accrued expenses and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets and liabilities are offset and net amounts reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

## **3-1 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and US Dollars. As the Saudi Riyal Is pegged to the US Dollar, the Company does not have significant exposure to currency risk. The Company also has some transactions in Euro, which were not significant in 2016 and 2015.

## **3-2 Fair value and cash flow interest rate risks**

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's interest rate risks arise mainly from its borrowings which are on fixed rates of interest therefore the cash flow interest rate risk is considered minimal. The rates of interest on borrowings are close to the market rates, therefore management believes the fair value risk is not significant.

### **3-3 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has no significant concentration of credit risk. Restaurant segment sales are on cash receipt basis, which represent majority of the Company's total sales (See Note 4). Sales on credit are mainly from Meat Factory, Rusk Factory and Bakeries segments. Due from a related party and account receivable are carried at their net realizable amount. The Company deals with national banks that have sound credit ratings.

### **3-4 liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments - Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments.

### **3-5 Fair value**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

**4- 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 December 31 and for the year ended, summarized by the above business segments, was as follows (in Saudi Riyals 000's)

<b>2016</b>	<b>Restaurants</b>	<b>Meat factory</b>	<b>Bakeries and other</b>	<b>Total</b>
Total segment sales	994 730	118 930	165 909	1 279 569
Inter-segment sales	-	(92 364)	(30 522)	(122 886)
Sales to external customers	994 730	26 566	135 387	1 156 683
Net income	156 626	31 832	29 038	217 496
Financial charges	7 001	310	-	7 311
Depreciation	60 417	4 899	14 503	79 819
Property, plant and equipment	807 197	42 703	188 354	1 038 254
Total assets	1 023 790	81 881	246 519	1 352 190
<b>2015</b>	<b>Restaurants</b>	<b>Meat factory</b>	<b>Bakeries and other</b>	<b>Total</b>
Total segment sales	922 243	120 126	159 733	1 202 102
Inter-segment sales	-	(91 602)	(33 495)	(125 097)
Sales to external customers	922 243	28 524	126 238	1 077 005
Net income	143 202	31 856	27 624	202 682
Financial charges	3 682	123	-	3 805
Depreciation	62 541	5 991	12 904	81 436
Property, plant and equipment	699 441	39 587	200 346	939 374
Total assets	863 275	87 272	240 885	1 191 432

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

**5- Cash and cash equivalents**

	<b>2016</b>	<b>2015</b>
Cash in banks	63 628 169	16 708 936
Cash in hand	9 597 630	6 199 376
	<b>73 225 799</b>	<b>22 908 312</b>



HERFY FOOD SERVICES COMPANY

(A Saudi Joint Stock Company)

Notes to financial statements For the year ended December 31, 2016

(All amount in Saudi Riyals Unless otherwise stated)

**6- Accounts receivable**

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Trade		15 843 314	12 903 719
Less: provision for doubtful debts		(509 146)	(509 146)
		15 334 168	12 394 573
Due from a related party	16	14 179 125	10 809 825
		<b>29 513 293</b>	<b>23 204 398</b>
Movement in provision for doubtful debts is as follows :			
	<b>Note</b>	<b>2016</b>	<b>2015</b>
January 1		509 146	1 067 023
Reversals		-	(557 877)
December 31		<b>509 146</b>	<b>509 146</b>

**7- Inventories**

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Food items , mainly raw materials		49 007 979	63 681 526
Packing materials		14 291 220	12 315 149
Spare parts, not held for sale		18 441 147	16 465 274
Operational supplies		20 745 798	17 216 390
		<b>102 486 144</b>	<b>109 678 339</b>
Less: provision for slow moving inventory		(724 110)	(732 191)
		<b>101 762 034</b>	<b>108 946 148</b>

Movement in provision for slow moving inventory is as follows:

	<b>Note</b>	<b>2016</b>	<b>2015</b>
January 1		732 191	883 981
Additions (reversal)		(8 081)	(151 790)
December 31		<b>724 110</b>	<b>732 191</b>

**8- Prepayments and other receivables**

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Prepaid rent		48 177 114	45 972 786
Amounts due from a supplier		17 594 422	13 810 032
Advance payments to vendors		17 774 151	10 785 040
Advances to employees		2 912 350	3 957 940
Refundable deposit		2 034 645	1 108 832
Prepaid insurance		3 856 287	4 122 017
Prepaid housing allowances		3 193 709	4 147 940
Other		13 892 090	13 094 477
		<b>109 434 768</b>	<b>96 999 064</b>

**9- Investment property**

	<b>Note</b>	<b>2016</b>	<b>2015</b>
January 1		4 000 000	4 000 000
Impairment of Investment property		(4 000 000)	(4 000 000)
		-	-

At December 31, 2016 and 2015, investment property consists of one land parcel held by the Company for capital appreciation. On the audit committee recommendation on May 24, 2015 to implementation of the Board's decision in its meeting on July 14, 2014 the provision of 2 million was estimated the meet the potential decline in the value of contributing, And due to the current circumstances point to faltering possession with increased probability of failure recovery of payments to the value of that contribution, and the recommendation of the audit Committee increase the provision by rest of the value of contributing to become 4 million Riyals.

**10- Property, plant and equipment**

	<b>January 1, 2016</b>	<b>Additions</b>	<b>Disposals, transfers and others</b>	<b>December 31, 2016</b>
<b>Cost</b>				
Land	182 899 371	1 126 445	-	184 025 816
Buildings	540 669 074	20 181 384	21 456 199	539 394 259
Machinery and equipment	359 924 467	74 111 805	19 096 364	414 939 908
Furniture Office equipment	52 118 754	5 249 442	10 107 684	47 260 512
Motor vehicles	65 318 835	7 170 676	1 245 311	71 244 200
Office and IT equipment	19 763 470	4 912 376	2 258 193	22 417 653
Software	6 836 843	2 112 527	77 832	8 871 538
Construction in progress	122 867 771	151 563 952	50 124 426	224 307 297
	<b>1 350 398 585</b>	<b>266 428 607</b>	<b>104 366 009</b>	<b>1 512 461 183</b>

**Accumulated depreciation**

Buildings	179 915 796	33 908 711	5 984 297	207 840 210
Machinery and equipment	157 144 974	28 066 560	6 415 095	178 796 439
Furniture Office equipment	21 156 888	5 464 457	2 795 604	23 825 741
Motor vehicles	38 912 702	9 302 086	503 297	47 711 491
Office and IT equipment	10 049 041	2 326 590	924 416	11 451 215
Software	3 844 972	750 166	13 617	4 581 521
	<b>411 024 373</b>	<b>79 818 570</b>	<b>16 636 326</b>	<b>474 206 617</b>
	<b>939 374 212</b>			<b>1 038 254 566</b>

	<b>January 1, 2015</b>	<b>Additions</b>	<b>Disposals, transfers and others</b>	<b>December 31, 2015</b>
<b>Cost</b>				
Land	182 487 021	11 869 850	11 457 500	182 899 371
Buildings	390 252 769	153 116 427	2 700 122	540 669 074
Machinery and equipment	310 056 772	60 424 011	10 556 316	359 924 467
Furniture Office equipment	37 757 259	15 536 114	1 174 619	52 118 754
Motor vehicles	60 424 131	9 206 464	4 311 760	65 318 835
Office and IT equipment	17 045 870	3 397 213	679 613	19 763 470
Software	5 421 206	1 512 537	96 900	6 836 843
Construction in progress	87 551 557	54 097 136	18 780 922	122 867 771
	<b>1 090 996 585</b>	<b>309 159 752</b>	<b>49 757 752</b>	<b>1 350 398 585</b>
<b>Accumulated depreciation</b>				
Buildings	142 546 255	39 388 218	2 018 677	179 915 796
Machinery and equipment	140 761 961	26 026 106	9 643 093	157 144 974
Furniture Office equipment	17 242 735	5 008 136	1 093 983	21 156 888
Motor vehicles	33 497 839	8 869 705	3 454 842	38 912 702
Office and IT equipment	9 074 498	1 610 323	635 780	10 049 041
Software	3 390 238	533 356	78 622	3 844 972
	<b>346 513 526</b>	<b>81 435 844</b>	<b>16 924 997</b>	<b>411 024 373</b>
	<b>744 483 059</b>			<b>939 374 212</b>

Construction in progress at December 31, 2016 principally represents costs incurred on new restaurants and the latest production facilities and advances given to purchase and construct property, plant and equipment. The Company expects that such projects based on existing agreements as of December 31, 2016 will be completed in 2017 and 2018 with a total estimated cost to complete of approximately Saudi Riyals 56.1 million (See Note 24).

Property, plant and equipment related to the Meat Factory and Cake Factory, which have a net carrying value of Saudi Riyals 207.64 million as of December 31, 2016 (2015: Saudi Riyals 164.73 million), are pledged as collateral to SIDF (See Note 11).

Depreciation is charged to the income statement as follows:

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Cost of sales		69 080 836	74 681 567
Selling and marketing expenses	19	4 821 893	4 287 796
General and administrative expenses	20	2 530 974	1 884 969
Other	1 – 10	3 384 866	581 512
		<b>79 818 569</b>	<b>81 435 844</b>

#### **Note 10-1**

The Company has sub-leased some of its buildings. The depreciation amount of Saudi Riyals 3.4 million (2015: Saudi Riyals 0.6 million) relating to such properties is recharged to the tenants and recorded as other, net. (See Note 21).

### **11- Borrowings**

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Al Rajhi Bank	1-11	321 451 571	263 125 000
SIDF loan	3-11	39 102 750	23 354 750
		<b>360 554 321</b>	<b>286 479 750</b>
Current portion		(122 076 660)	(87 730 000)
		<b>238 477 662</b>	<b>198 749 750</b>

#### **11-1 AL RAHJI**

The Company has various facilities with Al Rajhi Bank. Such facilities, which are unsecured and payable in semi-annual installments, have a mark-up cost which is generally based on SIBOR plus a margin fixed for the duration of the facility. During the year ended December 31, 2016, the Company obtained further loans and disbursements amounting to Saudi Riyals 155 million (2015: Saudi Riyals 175million) and repaid an amount of Saudi Riyals 96.7 million (2015: Saudi Riyals 55.6 million). The Company needs to comply with certain financial covenants relating to debt service coverage and current ratios.

#### **11-2 SIDF loan**

Under the terms of the SIDF loan agreement and extension agreement ("Agreements"), the Company's property, plant and equipment that relate to the Meat Factory are pledged as collateral to SIDF (See Note 10). This loan is also guaranteed by the majority shareholders on pro-rata basis where Savola Group and Mr. Ahmed Al Saeed have guaranteed 70% and 30% of the amount respectively,

The SIDF loan is repayable in semi-annual installments. SIDF charges an up-front fee that is presented net of the borrowings amount. The Company has to comply with covenants related to the Meat Factory regarding the maintenance of certain financial ratios, distribution of profits, maximum rental charges and maximum capital expenditures.

During the year ended December 31, 2016, the Company obtained further loans and

disbursements amounting to Saudi Riyals 21 million (2015: Saudi Riyals 5.6 million) and repaid an amount of Saudi Riyals 5.3 million (2015: Saudi Riyals 1.3 million). The Company has an undrawn facility amounting to Saudi Riyadh 15 million.

### 11-3 Maturity profile of borrowings, gross

Years ending December 31:	Note	11	2015
2017		122 076 660	87 730 000
2018		121 996 181	88 400 000
2019		84 956 557	65 130 000
2020 and beyond		31 524 923	45 219 750
		<b>360 554 321</b>	<b>286 479 750</b>

  

	2016	2015
Current	122 076 660	87 730 000
Non-current	238 477 661	198 749 750
	<b>360 554 321</b>	<b>286 479 750</b>

All the Company's borrowings are denominated in Saudi Riyals.

### 12- Accounts payable

	Note	2016	2015
Trade payables		55 851 245	51 969 107
Non-trade payables		2 526 520	11 203 128
Due to related parties	<b>16</b>	3 497 545	5 572 182
		<b>61 875 310</b>	<b>68 744 417</b>

### 13- Accrued expenses and other liabilities

	Note	2016	2015
Salaries, wages and benefits		35 993 031	28 266 163
Utilities		3 777 942	3 482 914
Rentals		2 383 608	5 832 623
Other payables		3 320 054	1 050 796
Finance charges		3 804 966	1 774 605
Other accrued expenses		1 421 886	1 708 955
		<b>50 701 487</b>	<b>42 116 056</b>

**14- Zakat matters****14-1 Components of zakat base**

The significant components of the zakat base of the Company under zakat regulations are as follows:

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Components of zakat base:			
Shareholders' Equity at beginning of the year		735 453 982	677 792 269
Provisions at beginning of the year		54 296 896	47 224 224
Long-term borrowings at beginning of the year		360 554 321	286 479 750
Adjusted net income for the year , before adjustment for expenditure on property , plant and equipment	14-2	237 508 523	223 962 767
Property , plant and equipment, as adjusted		(1 043 734 565)	(952 688 424)
Spare parts, not held for sale		(18 441 147)	(16 465 274)
Dividends and Board of Directors remuneration paid		(140 400 000)	(118 842 106)
Estimated zakat base		<b>185 238 010</b>	<b>147 463 206</b>

Zakat is payable at 2.5 percent of higher of the estimated zakat base and adjusted net income.

**14-2 Adjusted net income**

	<b>2016</b>	<b>2015</b>
Income for the year before zakat	221 746 120	206 681 713
Adjustments :		
Provisions during the year	10 282 403	11 795 036
Depreciation differences	5 480 000	5 486 018
Adjusted net income for the year, before adjustment for expenditure on property, plant and equipment	<b>237 508 523</b>	<b>223 962 767</b>
Less: Expenditure on property, plant and equipment during the year.	(178 517 402)	(208 969 901)
	<b>58 991 121</b>	<b>14 992 866</b>

HERFY FOOD SERVICES COMPANY

(A Saudi Joint Stock Company)

Notes to financial statements For the year ended December 31, 2016

(All amount in Saudi Riyals Unless otherwise stated)

**14-3 Provision for zakat**

	<b>2016</b>	<b>2015</b>
January 1	5 582 370	4 500 000
Provisions For the current year	4 250 000	4 000 000
Payments	(2 885 148)	(2 917 630)
December 31	<b>6 947 222</b>	<b>5 582 370</b>

**14-4 Status of final assessments**

The Company has filed its zakat return till the year ended December 31, 2015 with the GAZT. The Company obtained non-restricted certificate till 2015 from the GAZT. The Company is in the process of filing the zakat return for the year ended December 31, 2016.

**15- Employee termination benefits**

	<b>2016</b>	<b>2015</b>
January 1	53 055 559	47 224 224
Provisions	10 290 484	11 795 036
Payments	(3 784 025)	(5 963 701)
December 31	<b>59 562 018</b>	<b>53 055 559</b>



## 16- Related party matters

Related parties include the shareholders including the majority shareholder (Savola Group Company "SGC"), the directors and businesses controlled directly or indirectly by the shareholders, the directors or over which they exercise significant management influence and key management personnel

### 16-1 Related party transactions

During the year the Company entered into the following significant transactions with related parties in the normal course of business and at prices and terms agreed by the Company's management. Also, see Note 25.

	2016	2015
Sales to APUC (affiliate)	32 253 103	33 349 203
Salaries, management fees, and other allowances to Mr. Ahmed Hamad Al Saeed (CEO)	8 295 184	8 135 506
Rent charged by APUC (affiliate)	4 354 434	4 471 785
Purchases from Afia International Co. (affiliate)	3 847 783	1 488 186
Rent charged to Bazbazah Company (owned by Mr. Khalid Al Saeed_ Board member))	1 288 167	1 158 167
Rent charged by Qitaf enterprises (owned by Mr. Khalid Al Saeed Board member))	2 600 000	1 100 000
Rent charged by Mr. Ahmed Hamad Al Saeed (CEO)	580 000	580 000
Sales to Bazbazah Company (owned by Mr. Khalid Al Saeed)	142 050	599 580
Purchases from Maslan for Investment and Trading Company (owned by Mr. Khalid Al Saeed)	89 600	1 128 262
Rent charged by Mr. Khalid Al Saeed (Board member)	200 000	200 000
Rent charged from Bazbazah Company (owned by Mr. Khalid Al Saeed)	247 500	97 500
Rent Charged to Kinan Company(affiliate)	410 445	452 550
Loan From Al Rajhi Bank ( Mr. Abdelaziz Alghefayly Board member In the bank) (Board member) <b>(Note 11-1)</b>	155 000 000	175 000 000
Purchases from Delmonty Company owned by Al Muhaidib Group (Mr. Esam Al-Muhaidib CEO ) (Board member)	14 358 027	-

### 16-2 Management fees

In accordance with the Company's Bylaws, the Board of Directors is authorized to determine the management fees to be paid to the Managing Director. Accordingly, the Board of Directors decided to provide 3% of the Company's net income before management fees to be paid annually as management fees to the Managing Director. Mr. Ahmed Al Saeed, who is also a shareholder. Such amount is charged to the income statement and included within general and administrative expenses (See Note 20).

**16-3 Related party balances**

Amounts due from and to related parties represent balances arising from services received and provided in the normal course of business. Significant year end balances arising from transactions with related parties are as follows:

**(i) Due from related party**

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Azizia Panda United Co. (APUC)		13 236 820	10 504 245
Bazbazah Company		942 305	305 580
	<b>6</b>	<b>14 179 125</b>	<b>10 809 825</b>

**(ii) Due to related party**

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Mr. Ahmed Hamad Al Saeed		970 896	5 087 411
Afia International Co.		759 014	121 360
Kinan International		540 445	144 800
Maslan for Investment and Trading Company		-	218 611
Delmonty Company		1 227 190	-
	<b>12</b>	<b>3 497 545</b>	<b>5 572 182</b>

**17- Share capital**

The share capital of the Company as of December 31, 2016 comprised of 46.2 million (2015: 46.2million) shares stated at Saudi Riyals 10 each per share.

In an extra-ordinary general assembly meeting held on July 6, 2014 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 increase from 33 million to 46.2 million shares with a par value of Saudi Riyals 10 each.

**18- Statutory reserve**

In accordance with the Current Company's Bylaws, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equal 50% of its share capital. This reserve is currently

## 19- Selling and marketing expenses

	Note	2016	2015
Advertising		30 131 045	28 460 703
Salaries, wages and benefits		11 191 563	11 551 355
Repairs and maintenance		4 126 834	4 042 427
Depreciation	10	4 821 893	4 287 796
Commission		3 046 874	3 124 709
Other		4 955 763	4 592 067
		<b>58 273 972</b>	<b>56 059 057</b>

## 20- General and administrative expenses

	Note	2016	2015
Salaries, wages and benefits		44 777 507	40 146 284
Management fees	16	6 726 684	6 268 506
Depreciation	10	2 530 974	1 884 969
Travel		2 084 747	2 805 278
Repairs and maintenance		1 021 188	1 211 428
Telephone and electricity		1 123 399	646 902
Other		5 411 632	3 693 013
		<b>63 676 131</b>	<b>56 656 380</b>

## 21- Other - net

	Note	2016	2015
Gain on sale of property, plant and equipment		288 186	2 288 188
Rental income		493 711	1 938 027
Provision for Impairment of Investment		-	(4 000 000)
Franchise income	21-1	1 923 380	1 112 146
Reversal of accruals		-	748 727
Other		699 106	318 732
		<b>3 404 383</b>	<b>2 405 820</b>

## 21-1 Franchise income

Franchise income mainly represents income earned, calculated as a percentage of sales in accordance with the agreed terms and conditions between the Company and the related franchises in the UAE, Kuwait and Bahrain.

## 22- Operating leases

The Company has various operating leases for its restaurants and employees' accommodations and vehicles. Future rental commitments expiring within one year and in excess of one year are as follows:

	Note	2016	2015
Within one year		88 559 380	78 287 839
Between two and five years		244 339 983	250 761 596
Greater than five years		448 960 755	484 292 635
		<b>781 860 118</b>	<b>813 342 070</b>

Such future rental commitments have been netted by Saudi Riyals 48.18 million, which have been prepaid by the Company as of December 31, 2016 (2015: Saudi Riyals 45.97 million) (See Note 8).

The Company is providing part of its buildings for annual rent. Net rental income recognized during the year ended December 31, 2016 is Saudi Riyals 0.5 million (2015: Saudi Riyals 1.9 million) (See Note 21).

## 23- Earnings per share

Earnings per share for the years ended December 31, 2016 and 2015 has been computed by dividing the income from main operations and net income for such years by 462 million (Note1).

## 24- Contingencies and commitments

- The Company is contingently liable for bank guarantees amounting to Saudi Riyals 0.49 million (2015: Saudi Riyals 1.5 million) and letters of credit issued on behalf of the Company amounting to Saudi Riyals 3 million (2015: Saudi Riyals 5 million) in the normal course of business.
- The capital expenditure contracted by the Company but not incurred till December 31, 2016 is approximately Saudi Riyals 56.1 million (2015: Saudi Riyals 54.4 million).
- Also see Note 22 with respect to lease commitments.

## **25- Key management personnel remunerations**

The total remunerations of the Company's key management personnel for the year ended December 31, 2016 amounted to Saudi Riyals 20.5 million (2015: Saudi Riyals 19 million). Such remunerations include basic salaries, bonuses and other benefits as per the Company's policies.

Key management personnel are those persons, including the Board of Directors members, Managing Director and top executives having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

Also see Note 16 for management fees paid to the Managing Director.

## **26- Dividends**

Based on pre-approval of the The Extraordinary General Assembly held on April, 24, 2016 resolved to distribute interim cash dividends amounting to Saudi Riyals 69.3 million for the period from July 2015 to December 2015, The Board of Directors approved on meeting held on July, 14, 2016 to distribute cash dividends amounting to Saudi Riyals 69.3 million respectively. These amounts were paid to the shareholders during the year ended December 31, 2016. In addition, an amount of Saudi Riyals 1.8 million was approved and paid as remuneration to the Board of Directors.

## **27- Comparative Figures**

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