

HERFY FOOD SERVICES COMPANY

(A Saudi Joint Stock Company)



THE FINANCIAL STATEMENTS AND AUDIT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

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(A Saudi Joint Stock Company)
THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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Independent Auditors' Report

To the Shareholders of

Herfy For Food Services -Joint Stock Company

Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the financial statements of Herfy For Food Services –Saudi Joint Stock Company- ("the Company") which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and comprehensive income, changes in equity, and cash flows for the year then ended. and notes. comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis of our opinion.

Independence

We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

مكتب الرئيسي : 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 : ٦٤٥٨٠٠٤ (٠١٢) فاكس : ٦٤٥٢٣٤٠ (٠١٢)
مكتب الباحة : الشارع العام - عمارة تركي الملا - الدور الثاني - هاتف ٧٢٥٧٦٢٥ (٠١٧) فاكس : ٧٢٧١١٢٣ (٠١٧)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. and we do not provide a separate opinion on these matters.

(1) Revenue recognition

The Company's sales arrangements are generally straightforward, being on a point of sale basis with a right of return provided to the buyer in case of expiry of the product sold. Further, there continues to be pressure on the Company to meet expectations and targets. which may cause misstatement of revenue.

Revenue recognition is considered a key audit matter as there is a risk that management may override controls to misstate revenue transactions. either through inappropriate assessment of the sales return or by recording fictitious revenue transactions.

We performed the following procedures in relation to revenue recognition:

Our procedures included considering the appropriateness of revenue recognition as per the Company policies, and assessing compliance with applicable accounting standards. We tested the design and effectiveness of internal controls implemented by the Company through the revenue cycle. We tested sales transactions taking place at either side of the statement of financial position date to assess whether the revenue was recognised in the correct period.

We also performed an analytical review on revenue based on trends of sales and profit margins, and comparing them with the prior year.

(2) Valuation of Inventories

Inventories are stated at the lower of cost or net realizable value and an allowance is made by the Company, where necessary, for slow moving inventories. The management determines the level of obsolescence of inventories considering the nature, ageing profile, its expiry and sales expectations using historic trends and other qualitative factors. Further, at each reporting date, management reviews the valuation of inventories and the costs of inventories are written down where inventories are forecasted to be sold at below cost.

We consider this as a key audit matter due to the significant judgments and key assumptions applied by the management in determining the allowance for slow moving inventories and the level of inventories write down required based on Net Realisable Value (NRV) assessment.

We performed the following audit procedures in relation to valuation of inventories:

- Assessed the design and implementation. and tested the effectiveness of the Company's

- control around determination and monitoring of the allowance for slow moving inventories;
- Evaluated the Company's policy for allowance for slow moving inventories by performing retrospective testing, comparing historical estimates with actual results;
 - Checked that the allowance for slow moving inventories is computed in accordance with the Company's policy based on the inventories' ageing report;
 - Inquired for any identified expired or slow-moving inventories during our attendance of physical counts on selected locations; and
 - Tested the Net Realisable Values of finished goods inventories by considering actual sales post year-end and the assumptions used by the management to check whether inventories are valued at the lower of cost and Net Realisable Value.

(3) Implementation of IFRS (9) "Financial instruments", and IIFRS (15) "Revenue from contracts with customers"

From January 1, 2018 The Company adopted IFRS (9) "Financial instruments", and IIFRS 15 "Revenue from contracts with customers", As this involves the implementation of new standards for significant accounts to the company, we have considered them to be key audit matter.

We have reviewed the Company's compliance with the requirements of the new standards in terms of accounting policies and treatments, presentation and disclosure.

Other Information

Management is the responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report and conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. Company's By-laws and Companies regulations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations. or has no realistic alternative but to do SO.

Those Charged with Governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance. but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements. whether due to fraud or error. design and perform audit procedures responsive to those risks, obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error. as fraud may involve collusion, forgery, intentional omissions. misrepresentations. or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and. based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements. including the disclosures. and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.


We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Article (135) of the Companies Law requires the auditor to include in his report any irregularities that may have been found in the provisions of the Articles of Association or the Articles of Association of the Company. During our audit of the financial statements, we have not found that the Company is violating the provisions of the Companies Law or the Articles of Association of the Company.

SAUDI GROUP FOR ACCOUNTING & AUDITING


DAKHEEL ALI AL-DAKHEEL
LIC NO.(96)




Date: JUMADAILI, 23, 1440 H)
Corresponding to: February, 28 2019



Herfy Food Services Company
(A Saudi Joint Stock Company)
Statement of Financial Position
As at 31 December 2018
(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Notes	31 December 2018	31 December 2017
Assets			
Non-Current Assets			
Property, Plant and Equipment	(5)	1 059 855 196	1 043 330 764
Intangible Assets	(6)	10 223 424	11 339 906
Investment Property	(7)	33 178 001	30 612 722
		<u>1 103 256 621</u>	<u>1 085 283 392</u>
Current Assets			
Inventories	(8)	115 372 732	126 846 007
Trade Receivables and Other Receivables	(9)	175 859 893	165 283 215
Investments at Fair Value through profit and	(10)	30 887 603	559 691
Cash and Bank Balances	(11)	17 023 147	12 704 582
		<u>339 143 375</u>	<u>305 393 495</u>
TOTAL ASSETS		<u><u>1 442 399 996</u></u>	<u><u>1 390 676 887</u></u>
EQUITY AND LIABILITIES			
EQUITY			
Share Capital	(12)	646 800 000	646 800 000
Statutory Reserve		59 389 111	38 972 160
Retained Earnings		226 678 377	181 043 046
TOTAL EQUITY		<u><u>932 867 488</u></u>	<u><u>866 815 206</u></u>
Liabilities			
Non-Current Liabilities			
Long Term Borrowings	(13)	145 348 723	192 528 307
Employee Benefits	(14)	65 527 657	62 453 017
		<u>210 876 380</u>	<u>254 981 324</u>
Current Liabilities			
Current Portion of LongTerm Borrowings	(13)	100 002 605	137 281 964
Trade and Other Payables	(15)	188 939 705	123 201 354
Zakat	(16)	9 713 818	8 397 038
TOTAL LIABILITIES		<u><u>298 656 128</u></u>	<u><u>268 880 356</u></u>
		<u>509 532 508</u>	<u>523 861 681</u>
TOTAL EQUITY AND LIABILITIES		<u><u>1 442 399 996</u></u>	<u><u>1 390 676 887</u></u>

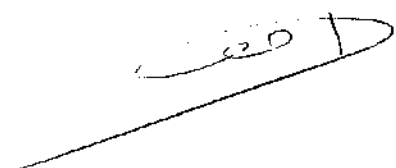
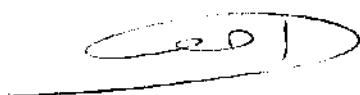
The accompanying notes (1) to (31) form an integral part of these financial statements

Herfy Food Services Company
(A Saudi Joint Stock Company)
Statement Of Profit Or Loss and Other comprehensive income
For The Year Ended 31 December 2018
(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Notes	2018	2017
Revenue		1 227 269 910	1 157 792 995
Cost of Revenue	(17)	(882 199 546)	(816 047 711)
Gross Profit		345 070 364	341 745 284
Other Revenue (net)	(18)	11 713 768	11 334 283
Selling and Distribution Expenses	(19)	(61 110 835)	(64 597 664)
General and Administration Expenses	(20)	(75 072 947)	(73 163 916)
Operating Profit		220 600 350	215 317 987
Finance Cost	(21)	(12 765 416)	(11 775 847)
Profit before zakat		207 834 934	203 542 140
Zakat	(16)	(3 665 425)	(3 500 000)
Profit for the year		204 169 509	200 042 140
Other Comprehensive Income			
Items that will not be classified to profit or loss			
Remeasurement of defined Benefit liabilities	(14)	(439 227)	(155 869)
Total Other Comprehensive Income for the year		(439 227)	(155 869)
Total Comprehensive Income for the year		203 730 282	199 886 271
Earnings per Share (SAR). based on Profit for the year	(22)		
- Basic		3.16	3.09
- Diluted		3.16	3.09

The accompanying notes (1) to (31) form an integral part of these financial statements

CFO


Herfy Food Services Company
(A Saudi Joint Stock Company)
Statement of Changes In Equity
For The Year Ended 31 December 2018
(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Share Capital	Statutory Reserve	Retained Earnings	TOTAL EQUITY
Balance at 01 January 2017	462 000 000	138 967 946	201 740 989	802 708 935
Capital Increase	184 800 000	(120 000 000)	(64 800 000)	-
Profit for the year	-	-	200 042 140	200 042 140
Other Comprehensive Loss for the year	-	-	(155 869)	(155 869)
Total Comprehensive Income	-	-	199 886 271	199 886 271
Transfer to statutory reserve	-	20 004 214	(20 004 214)	-
Dividends distributed	-	-	(135 780 000)	(135 780 000)
Balance at 31 December 2017	646 800 000	38 972 160	181 043 046	866 815 206
Balance at 01 January 2018	646 800 000	38 972 160	181 043 046	866 815 206
Profit for the year	-	-	204 169 509	204 169 509
Other Comprehensive loss for the year	-	-	(439 227)	(439 227)
Total Comprehensive Income	-	-	203 730 282	203 730 282
Dividends distributed	-	-	(137 678 000)	(137 678 000)
Transfer to statutory reserve	-	20 416 951	(20 416 951)	-
Balance at 31 December 2018	646 800 000	59 389 111	226 678 377	932 867 488

The accompanying notes (1) to (31) form an integral part of these financial statements

CFS





Herfy Food Services Company
(A Saudi Joint Stock Company)
Statement Of Cash Flows
For The Year Ended 31 December 2018
(All Amounts In Saudi Riyals Unless Otherwise Stated)

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	Notes	2018	2017
Profit for the period		204 169 509	200 042 140
Depreciation and Amortization		78 735 805	69 556 575
Provision for Employee Benefits	(14)	12 508 997	12 079 267
Provision of Bad debt	(9)	-	1 500 000
(Gain) on sale of property, plant and equipment	(12)	(773 171)	1 068 512
Financial charges		12 765 416	11 775 847
Zakat	(11)	3 665 425	3 500 000
		311 071 981	299 522 341
<u>Changes in</u>			
Inventories	(8)	11 473 275	(25 083 973)
Trade, Other Receivables and Prepayments	(9)	(10 576 679)	(39 828 004)
Trade and Other Payables	(15)	65 738 351	14 429 523
Cash Used in Operating Activities		377 706 928	249 039 887
Employee Benefits Paid	(14)	(9 873 584)	(9 057 746)
Zakat payments	(16)	(2 348 645)	(2 050 184)
Net Cash Generated from Operating Activities		365 484 699	237 931 957
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Additions to Property, Plant and Equipment		(97 613 557)	(114 117 853)
Proceeds from sale from property, plant and equipment		1 804 152	252 568
Investments at Fair Value through profit and loss		(30 327 912)	(559 691)
Net Cash Used in Investing Activities		(126 137 317)	(114 424 976)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in Loans	(13)	39 199 508	109 996 812
Repayment of loans and borrowings	(13)	(136 550 325)	(158 245 010)
Dividends distributed		(137 678 000)	(135 780 000)
Net cash flows from / (used in) financing activities		(235 028 817)	(184 028 198)
Net increase / (decrease) in cash and cash equivalents		4 318 565	(60 521 217)
Cash and Cash Equivalents at 01 January	(11)	12 704 582	73 225 799
Cash and Cash Equivalents at 31 December	(11)	17 023 147	12 704 582

The accompanying notes (1) to (31) form an integral part of these financial statements

CFO

1- Corporate information

HERFY Food Services Company, "Company", "HERFY" 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 building and own use, maintain and lease stores and food store fridges.

The Company is joint stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010037702 issued to Riyadh on Jamad-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 December 31, 2017, the total number of restaurants owned and leased by the Company were 40 and 329 respectively (December 31, 2017: 41 owned and 307 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 rusks and cakes ("Rusk Factory"), which operated under commercial registration number 1010179007 issued on Jamad-ul-Awal 11, 1423H (July 20, 2002) and in accordance with industrial license number 1225/S issued on Dhul Qada 6, 1422 H (January 19, 2002). The Rusk factory commenced production in April 2003. During the year ended 31 December 2013, the Company disposed the plant and equipment relating to the Rusk factory. The production of rusks, and cakes is now being carried out from Cakes Factory. 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 Jamad -ul-Thani 16, 1425 (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 Shawal 20, 1431 H (September 29, 2010) and in accordance with industrial license number 11583/T issued on Shawwal 18, 1431 H (September 27, 2010). 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.

2- BASIS OF PREPARATION

2-1 Statement of Compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") (here and after refer to as "IFRS as endorsed in KSA").

As required by the Capital Market Authority ("CMA") through its circular dated 16 th October 2016 the Company needs to apply the cost model to measure the property, plant and equipment, investment property and intangible assets upon adopting the IFRS for three years starting from the IFRS adoption date.

2-2 Preparation of The Financial Statements

These Financial Statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

- The defined benefit obligation is recognised at the present value of future obligations using the Projected Unit Credit Method.

3- FUNCTIONAL AND PRESENTATION CURRENCY

These Financial Statements are presented in Saudi Riyal ("SAR"), which is the Company's functional and presentation currency. All amounts have been rounded to the Saudi Riyal, unless otherwise indicated.

4- Significant accounting policies

4-1 New Standards, Amendment to Standards and Interpretations:

The Company has adopted, as appropriate, the following new and amended IASB Standards, effective 1 January 2018.

4-1-1 IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Company recognizes revenue when a customer obtains controls of the goods at a point in time i.e. on delivery and acknowledgement of goods, which is in line with the requirements of IFRS 15. Accordingly, there is no material effect of adopting 'IFRS 15 Revenue from Contracts with Customers' on the recognition of Revenue of the Company.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Company's sale of goods are set out below.

Type of Product	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Consumer Products of Food, Meat, and Bakery.	Customers obtain control of products when the goods are delivered to them and have been accepted by them. Invoices are generated and revenue is recognised at that point in time. Credit invoices are usually payable within 45 - 90 days. Invoice is generated and recognised as revenue net off applicable discounts which relate to the items sold. No customer loyalty points are offered to customers and therefore there is no deferred revenue to be recognised for the items sold.	Under IAS 18, revenue for contracts with customers was also recognised when the goods were delivered to and were accepted by the customers and a reasonable estimate of sales return could be made. However, estimated sales return was recognised under Cost of Sales, instead of netting off against Revenue, with a corresponding liability in 'Other Payables' for cash sales and a provision for sales return against 'Trade receivables' for credit loss.
	For contracts that permit the customer to return an item, under IFRS 15 revenue is recognised to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data.	The impact of this change is that revenue is decreased with the amount of expected sales return.

The Company has adopted IFRS 15 using the cumulative effect method, with the effect of applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for previous year has not been restated, as previously reported, under IAS 18 and related interpretations.

The following table summarises the impact of adopting IFRS 15 on the Company's Condensed Statement of Profit or Loss for the three months period ended 31 March 2018, for the relevant Financial Statement line items affected.

Impact on the Statement of Profit or Loss.

	As Reported	Adjustment	Amounts without adoption of IFRS 15
Revenue	1 227 269 910	-	1 227 269 910
Cost of Sales	(882 199 546)	-	(882 199 546)
Gross Profit	345 070 364	-	345 070 364

4-1-2 IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

(1) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (2) below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the class of the Company's financial assets as at 1 January 2018.

	Original Classification Under IAS 39	New Classification Under IFRS 9	Original Carrying Amount under IAS 39	New Carrying amount Under IFRS 9
Financial Assets				
Investments at FVTPL	Investments at FVTPL	Investments at FVTPL	30 887 603	30 887 603
Trade Receivables	Loans and Receivables	Amortised cost	48 759 591	48 759 591
Cash and bank	Loans and Receivables	Amortised cost	17 023 147	17 023 147
Total			96 670 341	96 670 341

(2) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and investments at FVTPL. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment losses related to trade receivables are presented separately in the Condensed Statement of Profit or Loss and OCI.

Transition

The Company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are not recognised in retained earnings as at 1 January 2018 as amount was not material. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets.

4-2 Standards issued but not yet effective

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these Consolidated Financial Statements.

4-2-1 IFRS 16 Leases

IFRS 16 replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Company will recognise new assets and liabilities for its operating leases of various types of contracts including warehouse and depot facilities, accommodation / office rental premises, etc. The nature of expenses related to those leases will now change because the Company will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Company is required to adopt IFRS 16 Leases from 1 January 2019. The Company has performed initial assessment during the year and assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change at the time of final assessment.

The Company will apply IFRS 16 using the the modified retrospective approach.

The expected effect of the adoption of IFRS 16 is an increase in right of use of assets amounting to SAR 679.36 million, a decrease in prepaid rent amounting to SAR 29.67 million and a corresponding increase in liabilities amounting to SAR 649.69 million.

The expected effect due to recognition of sub-leases on adoption of IFRS 16 will result in increase in net investment in finance lease amounting to SAR 13.57 million, decrease in advance rent income of SAR 0.35 million, decrease in right of use of assets of SAR 5.38 million and an increase in retained earnings of SAR 8.54 million.

No significant impact is expected for the Company's finance leases.

The Company's activities as a lessor are not material and hence the Company does not expect any significant impact on the Financial Statements.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2018 and identified as leases in accordance with IAS 17 and IFRIC 4.

4-3 Annual Improvements to IFRSs 2015–2017 Cycle

IAS 23,' Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale. The amendments are effective from 1 January 2019, with early application permitted, subject to EU endorsement.

4-4 Property, Plant and Equipment

Property, Plant and Equipment are measured at cost, less accumulated depreciation and accumulated impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company and amount can be measured reliably.

Finance costs on borrowings to finance the construction of the qualifying assets are capitalized during the period of time that is required to substantially complete and prepare the qualifying asset for its intended use.

The cost less estimated residual value is depreciated on straight-line basis over the following estimated useful lives of the assets:

Buildings On owned lands	35 Years
Buildings On leased lands	the Lower of 20 years or the rent period
Plant, Machinery and Equipment	4-20 years
Furniture and Office Equipment	6-7 years
Motor Vehicles	5- 10 years

Land and Capital Work in Progress are not depreciated..

Capital work in progress at period end includes certain assets that have been acquired but are not ready for their intended use. These assets are transferred to relevant assets categories and are depreciated once they are available for their intended use.

The assets' residual values, useful lives and impairment indicators are reviewed at each financial year end and adjusted prospectively, if considered necessary.

4-5 Investment properties

Investment properties are measured initially at cost. Transaction costs are included in the initial measurement. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes professional fees for legal services, property transfer taxes and other transaction costs. Subsequent to initial recognition, investment properties are recognised at cost as the fair value method of the investment property currently is not allowed under IFRS as adopted by SOCPA.

4-6 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of Profit or Loss and expenses in the expense category consistent with the function of the intangible assets.

Intangible assets' residual values, useful lives and impairment indicators are reviewed at each financial year end and adjusted prospectively, if considered necessary.

4-7 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average method. Cost includes all direct manufacturing expenditure based on the normal level of activity and transportation and handling costs. Net realizable value comprises estimated selling price less further production costs to completion and appropriate selling and distribution costs. Allowance is made, where necessary, for obsolete, slow moving and defective stocks.

4-8 Cash and Cash Equivalents

Cash and cash equivalents includes bank balances and deposits with original maturities of three months or less, if any. It also includes bank overdrafts which form an integral part of the Company's cash management and are likely to fluctuate from overdrawn to positive balances.

4-9 Impairment of Non-Financial Assets

Non-financial assets (other than inventories) are reviewed at each reporting date to identify circumstances indicating occurrence of impairment loss or reversal of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss or reversal of impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in Statement of Profit or Loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in Statement of Profit or Loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4-10 Statutory Reserve

In accordance with Section (129) of the Regulations for Companies in Kingdom of Saudi Arabia and the section (41) of the Company's by-laws and , The Company is required to recognise a reserve comprising of 10% of its Net Income for the year. As per the by-laws the Company will cease the contribution when such reserve will reach 30% of its Share Capital.

4-11 Provisions

A provision is recognised if, as a result of past events, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

4-12 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The borrowings are classified as a current liability when the remaining maturity is less than 12 months.

4-13 Zakat and income tax

Zakat is provided for in accordance with General Authority of Zakat and Tax ("GAZT") regulations. Adjustments arising from final Zakat and Foreign income tax assessments are recorded in the period in which such assessments are made.

4-14 Employee Benefits

Employee benefits are payable to all employees employed under the terms and conditions of the Labor Laws applicable on the Company and its subsidiaries, on termination of their employment contracts.

The Company's obligation in respect of defined benefit plan is calculated by estimating the amount of future benefits that employees have earned in current and prior periods and discounting that amount to arrive at present value.

The company sets the assumptions used in determining the key elements of the costs of meeting such future obligations. These assumptions are set after consultation with the Company's actuaries and include those used to determine regular service costs and the financing elements related to the liabilities. The calculation of defined benefit obligation is performed by a qualified actuary using the projected unit credit method.

Re-measurement of defined benefit liability, which comprise of actuarial gains and losses are recognised immediately in Statement of Other Comprehensive Income. The Company determines net interest expense on the defined benefit obligation for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to then-net defined benefit, taking into account any change in the net defined benefit obligation during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in Statement of Profit or Loss.

4-15 Revenue Recognition

Revenue represents the fair value of the consideration received or receivable for goods sold, net of returns, trade discounts and volume rebates. Products are sold principally on a sale or return basis. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

The Company's revenue generating activities are as follows:

(1) Restaurants Sales

Restaurants sales are made on cash basis and are recognised on receipt basis.

(2) Factories, Bakeries and Catering services

Revenues from factories, bakeries catering services and other sales are recognised upon delivery of goods to the customer.

(3) Other Income

Rentals and Franchise income are accounted on a straight line basis over the terms of the contract and are recognised in 'Other Income'.

(4) Supplier Rebate

The supplier rebate received are recognised primarily as a deduction from cost of sales based on entitlement that has been earned up to the balance sheet date, for each relevant supplier arrangement.

4-16 Foreign Currencies

Transactions and balances

Transactions in foreign currencies are translated into the respective functional currencies of Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Foreign currency differences are generally recognised in statement of Profit or Loss in the period in which they occur.

4-17 Operating Leases

Assets held under other leases are classified as operating leases and are not recognised in the Company' Statement of Financial Position. Rentals in respect of operating leases are charged to the Statement of Profit or Loss over the term of the leases.

4-18 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur.

Borrowing costs incurred before and after the date of transition (1 January 2016) for all eligible qualifying assets are capitalised.

4-19 Selling, Distribution, General and Administration Expenses

Selling, Distribution, General and Administration Expenses include direct and indirect costs not specifically part of Cost of Sales. Allocations between Cost of Sales and Selling, Distribution, General and Administration Expenses, when required, are made on a consistent basis. The Company charges the payments, other than those related to volume based rebates, made in respect of long term agreements with customers and distributors to Selling and Distribution Expenses.

4-20 Segmental Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available. Segment results that are reported to the Company's Chief Operating Decision Maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

4-21 Use of Judgements and Estimates

The preparation of Financial Statements, in conformity with IFRS as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, requires the use of judgments, estimates and assumptions. Such estimates and assumptions may affect the balances reported for certain assets and liabilities as well as the disclosure of certain contingent assets and liabilities as at the Statement of Financial Position date. Any estimates or assumptions affecting assets and liabilities may also affect the reported revenues and expenses for the same reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

4-22 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.

5- PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and Equipment	Furniture and Office Equipment	Motor Vehicles	Capital Work-in-Progress	Total
Cost:							
At the beginning of the year	178 427 855	518 515 887	454 367 806	86 618 912	77 940 077	245 015 615	1 560 886 152
Additions	-	14 602 423	8 330 846	11 019 336	5 115 706	56 994 747	96 063 058
Disposal and Transfer	-	(158 341)	(3 767 629)	(552 380)	(5 370 263)	-	(9 848 613)
Transfer from Capital Work-in-Progress	-	108 757 593	13 096 612	8 598 055	852 200	(136 913 322)	(5 608 862)
At the end of year	178 427 855	641 717 562	472 027 635	105 683 923	78 537 720	165 097 040	1 641 491 735
Accumulated Depreciation:							
At the beginning of the year	-	215 245 373	207 245 971	43 107 127	51 956 917	-	517 555 388
Charge for the year	-	23 911 234	32 586 060	11 362 539	5 057 402	-	72 917 235
Disposal and Transfer	-	(158 341)	(3 222 177)	(459 654)	(4 995 912)	-	(8 836 084)
At the end of year	-	238 998 266	236 609 854	54 010 012	52 018 407	-	581 636 539
Net Book Values:							
At 31 December 2018	178 427 855	402 719 296	235 417 781	51 673 911	26 519 313	165 097 040	1 059 855 196
At 31 December 2017	178 427 855	303 270 514	247 121 835	43 511 785	25 983 160	245 015 615	1 043 330 764

5-1 Capital Work-in-Progress includes SAR 0.13 million of borrowing costs capitalised during the year. (31 December 2017: SAR 1.92 million)

5-2 During the year, the transfer from capital Work in progress to intangible assets amounted SAR 5 608 862 .

5-3 The Board of Directors approved on March, 29,2017 to increase the useful life of the building on owned land to 35 years , the vehicles trucks to 10 years, and intangible to 10 years.

6- **Intangible Assets**

	<u>31 December 2018</u>	<u>31 December 2017</u>
<u>Cost:</u>		
At the beginning of the year	17 442 556	8 871 538
Additions	617 673	127 838
Transfer from Projects under construction	-	8 528 311
Disposal	(60 000)	(85 131)
At the end of year	<u>18 000 229</u>	<u>17 442 556</u>
<u>Accumulated Amortization</u>		
At the beginning of the year	6 102 650	4 581 521
Charge for the year	1 715 703	1 598 708
Disposal	(41 548)	(77 579)
At the end of year	<u>7 776 805</u>	<u>6 102 650</u>
<u>Net Book Values</u>	<u>10 223 424</u>	<u>11 339 906</u>

7- **Investment Properties**

	<u>31 December 2018</u>	<u>31 December 2017</u>
<u>Cost:</u>		
At the beginning of the year	50 845 039	50 766 816
Additions	1 059 284	78 223
Transfer from Projects under construction	5 608 862	-
At the end of year	<u>57 513 185</u>	<u>50 845 039</u>
<u>Accumulated Depreciation:</u>		
At the beginning of the year	16 232 317	12 510 347
Charge for the year	4 102 867	3 721 970
At the end of year	<u>20 335 184</u>	<u>16 232 317</u>
Provision for impairment	4 000 000	4 000 000
<u>Net Book Values</u>	<u>33 178 001</u>	<u>30 612 722</u>

The above investment properties also include buildings or part thereof, which have been kept for the purposes of earning rental income.

In addition of one land parcel held by the Company for capital appreciation which it cost SR 4 million. 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.

The fair value of investment properties is amounted to SR 31.7 million .

Measurement of fair value

The fair value of investment property was determined by external, independent property valuer, having appropriate recognised professional qualifications (are required by Ministry of commerce and investment) and recent experience in the location and category of the property being valued.

8- Inventories

	<u>31 December 2018</u>	<u>31 December 2017</u>
Raw materials	41 683 917	49 409 611
Packing materials	13 058 085	14 029 559
Spare parts, not held for sale	40 637 925	37 582 747
Operational supplies	20 716 915	26 548 200
	116 096 842	127 570 117
Less: provision for slow moving inventory	(724 110)	(724 110)
	<u>115 372 732</u>	<u>126 846 007</u>

Movement in provision for slow moving inventory is as follows:

1 January 2017	724 110	724 110
Additions	-	-
Reversal	-	-
31 December 2017	<u>724 110</u>	<u>724 110</u>

9- Trade Receivables and Other Receivables

	<u>31 December 2018</u>	<u>31 December 2017</u>
Trade Receivables - related parties	13 567 310	19 403 346
Trade Receivables - other	35 192 281	21 451 088
	48 759 591	40 854 434
Less:		
Allowance for impairment of trade receivables	(2 009 146)	(2 009 146)
	46 750 445	38 845 288
Prepayments	70 280 876	57 264 400
Other Receivables	58 828 572	69 173 527
	<u>175 859 893</u>	<u>165 283 215</u>

Ageing of Trade Receivables

Up to 3 months	33 200 445	23 967 361
More than 3 months	15 559 146	16 887 073
	<u>48 759 591</u>	<u>40 854 434</u>

Movement in allowance for Impairment of Trade Receivables is as follows

At the beginning of the year	2 009 146	509 146
Allowance made during the year	-	1 500 000
Allowance (reversed) during the year	-	-
At the end of the year	<u>2 009 146</u>	<u>2 009 146</u>

10- Investements at Fair Value through profit and loss
Investements at Fair Value through profit and loss is investment in Commodities Mudaraba Al-Rajhi Fund - SAR, The movement in Investments FVTPL as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Opening balance	559 691	-
Purshasing	219 500 000	128 220 788
Redmpetion	(189 208 436)	(127 661 097)
Change in fair value	36 348	-
Closing balance	<u>30 887 603</u>	<u>559 691</u>

11- Cash and Cash Equivalentents

	<u>31 December 2018</u>	<u>31 December 2017</u>
Cash in Bank	10 233 767	6 469 242
Cash in Hand	6 789 380	6 235 340
	<u>17 023 147</u>	<u>12 704 582</u>

Cash in bank include SR 559 690 investment in Commodities Mudaraba Fund - SAR

12- Share Capital

The Company's paid-up capital consists of 64.680 million shares (31 December2017 : 64.68 million shares) of SAR 10 each.

At the Extraordinary General Assembly meeting held on 22 May 2017, the shareholders of the Company decided to increase the Company's capital from SR 462 million to SR 646.8 million. This increase was made by SR 184.8 million through the transfer of SR 120 million and SR 64.8 million from statutory reserve and retained earning, The total number of shares increased from 46.2 million shares to 64.68 million shares at a nominal value of SR 10 per share.

13- Loans and borrowings

	<u>31 December 2018</u>	<u>31 December 2017</u>
Al Rajhi Bank	181 627 088	296 959 690
- SIDF loan	27 910 750	32 850 582
SAAB Bank	15 702 202	-
Riyadh Bank	20 111 288	-
	<u>245 351 328</u>	<u>329 810 272</u>

	<u>31 December 2018</u>	<u>31 December 2017</u>
Non-Current	145 348 723	192 528 307
Current Portion of LongTerm Borrowings	100 002 605	137 281 964
	<u>245 351 328</u>	<u>329 810 272</u>

13-1 Details of long term loans

13-1-1 Al Rajhi Bank

The Company has various facilities available with Al Rajhi bank. Such facilities, which are unsecured and payable in semi annual installments, have 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, 2018 the Company repaid an amount of Saudi Riyals 126.85 million (December 31, 2017 : Saudi Riyals 139.07 million).

13-1-2 Loans from SIDF

Under the terms of the SIDF loan agreement and extension agreement ("agreements"), the Company's Property, plant and equipment that relate to the meat and cake factories are pledged as collateral against financings from SIDF. These loans are 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

These loans are repayable in semi-annual installments. SIDF charges and upfront fee are presented net of the borrowings amount. The Company has to comply with certain covenants related to the loans availed for meat factory regarding the maintenance of certain financial ratios, distribution of profits, maximum rental charges and maximum capital expenditures

The information about liquidity risk is explained in note 27-2

13-1-3 SABB Bank

The Company has a Murabaha Liquidity Finance by Metal (Tawarruq) agreement with SABB Bank for five years, which is repriced evrey three monthes, during the period ending 30 September 2018, the Company received SAR 15.6 million.

13-1-4 Riyadh Bank

The Company has a Murabaha Liquidity Finance by Metal (Tawarruq) agreement with Riyadh Bank, which is repriced evrey three monthes, during the period ending 30 September 2018, the Company received SAR 20 million.

14- EMPLOYEE BENEFITS

14-1 Defined benefit liability

	<u>31 December 2018</u>	<u>31 December 2017</u>
Net defined benefit liability	65 527 657	62 453 017
Total Net defined benefit liability	<u>65 527 657</u>	<u>62 453 017</u>

14-1-1 Movement in present value of defined benefit obligation

	<u>31 December 2018</u>	<u>31 December 2017</u>
Opening balance - present value of defined benefit obligation	62 453 017	59 275 627
Current service cost	12 508 997	12 079 267
Benefits paid	(9 873 584)	(9 057 746)
Actuarial loss / (gain) on obligation	439 227	155 869
Closing balance - present value of defined benefit obligation	<u>65 527 657</u>	<u>62 453 017</u>

14-1-2 Assumption summary

Membership Data	31 December 2018	31 December 2017
Average age of employees (years)	6 126	5 386
Salary increase	3.00%	1.40%
Average years of past service	31.3 4	31.5 4
Average number of years of previous experience	4.53	4.71
Discount Rate	4.25%	3.75%

14-1-3 Sensitivity in Defined Benefit Obligation

Particulars	SR	Percentage Change
Current Liability	65,527,657	
+1% Discount Rate	61,825,346	-5.65%
-1% Discount Rate	69,721,224	6.40%
+1% Salary Increase Rate	70,055,989	6.91%
-1% Salary Increase Rate	61,461,852	-6.20%
+10% Withdrawal Rates	65,011,773	-0.79%
-10% Withdrawal Rates	66,089,134	0.86%
Mortality +10%	65,517,267	-0.02%
Mortality -10%	65,537,946	0.02%

15- TRADE AND OTHER PAYABLES

	31 December 2018	31 December 2017
Trade payable - related parties	9 640 005	2 633 496
Trade payable - third parties	118 578 998	73 959 294
Accrued Expenses	53 510 502	45 625 519
Other Payables	7 210 200	983 045
	188 939 705	123 201 354

16- Zakat

16-1 Movement in provision for zakat

	31 December 2018	31 December 2017
Opening Balance	8 397 038	6 947 222
Provision for Current year	3 665 425	3 500 000
Payments	(2 348 645)	(2 050 184)
Closing balance	9 713 818	8 397 038

Zakat has been calculated based on zakat base for the Company. The Company has filed its Zakat return up to the year ended 31 December 2017. An assessment has been issued for the year ended 31 December 2017, the company has appealed against the issued assessment. Till date, the appeal is under review by GAZT and no response received yet. The company has obtained a restricted certificate for the year ended 31 December 2017. The final assessments for the years prior to 2017 are yet to be received from GAZT.

16-2 Components of zakat base	31 December 2018	31 December 2017
Shareholders' Equity at beginning of the year	866 815 206	812 550 102
Provisions at beginning of the year	69 186 273	70 389 737
Long-term borrowings at beginning of the year	213 719 272	324 899 481
Adjusted net income for the year , before adjustment for expenditure on property , plant and equipment	220 343 931	223 600 407
Property , plant and equipment, as adjusted	(1 103 256 615)	(1 096 506 835)
Spare parts, not held for sale	(40 637 925)	(21 723 789)
Dividends and Board of Directors remuneration paid	(137 678 000)	(135 780 000)
Estimated zakat base	<u>88 492 142</u>	<u>177 429 103</u>

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

16-3 Adjusted net income	31 December 2018	31 December 2017
Income for the year before zakat	207 834 933	203 542 140
Adjustments :	-	-
Provisions during the year	12 508 998	12 078 267
Depreciation differences	-	7 980 000
Adjusted net income for the year, before adjustment for expenditure on property, plant and equipment	<u>220 343 931</u>	<u>223 600 407</u>
Less: Expenditure on property, plant and equipment during the year.	(97 740 015)	(114 117 853)
	<u>122 603 916</u>	<u>109 482 554</u>

17- Cost of sales	31 December 2018	31 December 2017
Material Consumed	372 404 867	350 861 824
Employee Costs	249 081 891	221 990 998
Depreciation & Amortisation	68 512 032	60 594 536
Rent	96 979 317	92 860 919
Electric & Other Utilities Cost	56 687 372	53 217 148
Repairs and Maintenance	17 410 952	16 501 601
Other Over Heads Cost	21 123 115	20 020 685
	<u>882 199 546</u>	<u>816 047 711</u>

18- Other income (net)	31 December 2018	31 December 2017
Rental income	6 396 729	8 726 046
Franchise income	1 316 779	1 254 932
Other	3 227 089	2 421 817
Gain on sale of Property, plant and equipment	773 171	(1 068 512)
	<u>11 713 768</u>	<u>11 334 283</u>

19- Selling And Distribution Expenses

	<u>31 December 2018</u>	<u>31 December 2017</u>
Marketing Expenses	15 889 999	29 599 201
Employee Costs	19 717 046	16 104 966
Depreciation & Amortisation	2 779 927	2 133 425
Repairs and Maintenance	3 191 607	4 111 208
Commesion	13 839 401	7 824 604
Other Expenses	5 692 855	4 824 260
	<u>61 110 835</u>	<u>64 597 664</u>

20- General And Administration Expenses

	<u>31 December 2018</u>	<u>31 December 2017</u>
Employee Costs	47 475 311	45 684 525
Management fees	6 427 885	6 289 358
Depreciation & Amortisation	7 443 847	6 828 613
Travel expenses	1 913 175	1 744 342
Repairs and maintenance	746 959	451 464
Telephone and electricity	2 503 330	2 287 985
Other	8 562 440	9 877 629
	<u>75 072 947</u>	<u>73 163 916</u>

21- Finance Cost

	<u>31 December 2018</u>	<u>31 December 2017</u>
Finance Cost	12 891 874	13 699 183
Capiatlised Finance Cost	(126 458)	(1 923 336)
	<u>12 765 416</u>	<u>11 775 847</u>

22- EARNING PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	<u>2017</u>	<u>2017</u>
Profit for the year	204 169 509	200 042 140
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings.	64 680 000	64 680 000

Earnings per share for the two years ended 30 December 2018 and 2017 were calculated by dividing the net income for the two years at 64.68 million shares after taking into account the increase in the number of shares of the Company during the year ended 31 December 2017 (note 12)

2.3- 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.

These operating segments are identified based on internal reports that the entity's Chief Financial Officer (CFO) regularly reviews in allocating resources to segments and in assessing their performance 'management approach'. The management approach is based on the way in which management organizes the segments within the entity for making operating decisions and in assessing performance. The management of HERFY at the end of every reporting period, reviews the above segments for quantitative thresholds as well as criteria for presenting the revenues and expenses for the segments.

23-1 Selected financial information as of December 30 and for the Period ended, summarized by the above business segments, was as follows (in 000 Saudi Riyals)

	Restaurants and Catering service			Meat factory			Bakeries and other			Total	
	2018	2017	2018	2018	2017	2018	2018	2017	2018	2017	
Total segment revenue	1 049 565	994 133	128 824	123 732	155 456	1 339 399	1 273 321				
Inter-segment revenue	-	-	(93 306)	(95 028)	(20 500)	(112 130)	(115 528)				
Revenue net	1 049 565	994 133	35 518	28 704	134 956	1 227 270	1 157 793				
Net income	131 684	140 232	39 110	35 143	24 667	204 170	200 042				
Finance cost	12 382	10 879	94	396	500	12 765	11 775				
Depreciation and amortization	58 258	50 569	6 164	5 294	13 694	78 736	69 557				
Property, plant and equipment	892 633	857 746	40 844	50 665	176 872	1 103 257	1 085 283				
Total assets	1 096 536	1 109 619	197 678	162 373	118 685	1 442 400	1 390 677				
Total Liabilities	433 630	433 802	18 880	28 251	61 808	509 093	523 861				

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

24- 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:

24-1 Related Party - Trade Receivable

Nature of Transactions	Note	Transaction Amount		Balance at	
		December- ^{٢٠١٨}	December- ^{٢٠١٧}	December- ^{٢٠١٨}	December- ^{٢٠١٧}
Sales to:					
APUC (Savola Group Subsidiary)		28 312 954	28 112 479	12 046 005	16 666 014
Bazbazah Int Company (owned by Mr. Khalid Al Saeed_ Board member)		107 465	77 220	1 306 700	2 737 332
Taza Restaurant Co. Ltd (Mr. Khalid Al Saeed_ Board member)		1 766 222	-	214 605	-
		<u>30 186 641</u>	<u>28 189 699</u>	<u>13 567 310</u>	<u>19 403 346</u>
Rent and services to:					
Bazbazah Company (owned by Mr. Khalid Al Saeed_ Board member)		841 167	1 288 167	-	-
		<u>841 167</u>	<u>1 288 167</u>	<u>-</u>	<u>-</u>
Total Related Party - Trade Receivable		<u>31 027 808</u>	<u>29 477 866</u>	<u>13 567 310</u>	<u>19 403 346</u>

24-2 Related Party - Trade and Other Payable

Salaries, management fees, and other allowances:					
Mr. Ahmed Hamad Al Saeed (CEO)		7 703 885	7 565 358	4 088 195	1 561 706
		<u>7 703 885</u>	<u>7 565 358</u>	<u>4 088 195</u>	<u>1 561 706</u>
Rent From:					
Mr. Ahmed Hamad Al Saeed (CEO)		630 000	630 000	-	-
APUC (affiliate)		3 883 556	3 962 986	550 133	499 684
Qitaf enterprises (owned by Mr. Khalid Al Saeed_ Board member)		2 600 000	2 600 000	-	-
Mr. Khalid Al Saeed_ Board member		200 000	200 000	-	-
Bazbazah Company (owned by Mr. Khalid Al Saeed_ Board member)		593 300	327 500	-	-
Kinan Company(affiliate)		266 353	287 848	273 161	229 485
		<u>8 173 209</u>	<u>8 008 334</u>	<u>823 294</u>	<u>729 169</u>
Purchases From:					
Afia International Co. (affiliate)		2 247 008	2 684 639	225 908	-
Mama Sause Factory		14 941 215	5 044 332	1 410 616	342 621
Delmonty Company owned by Al Muhaidib Group (Mr. Esam Al-Muhaidib CEO) (Board member)		-	16 853 129	-	-
Bazbazah Company (owned by Mr. Khalid Al Saeed_ Board member)		2 798 833	-	2 491 294	-
United Sugar Factory		2 420 229	-	316 255	-
AL MARAI CO,		5 312 252	-	284 443	-
		<u>27 719 537</u>	<u>24 582 100</u>	<u>4 728 516</u>	<u>342 621</u>
		<u>43 596 631</u>	<u>40 155 792</u>	<u>9 640 005</u>	<u>2 633 496</u>

24-3 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 statement of profit or loss and included within general and administrative expenses (See Note 20).

24-4 Management Fees

The total remunerations of the Company's key management personnel for the year ended December 31, 2018 amounted to 14.84 million Saudi Riyals (2017:17.3 million Saudi Riyal). 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.

25- Contingencies and commitments

- 1) The Company is contingently liable for bank guarantees issued on behalf of the Company amounting to Saudi Riyals 6.88 million (31 December 2017: S R 0.36 million) and letters of credit issued on behalf of the Company amounting to Saudi Riyals 1.24 million (31 December 2017: S R 0.78 million) in the normal course of business.
- 2) The capital expenditure contracted by the Company but not incurred till December 31, 2018 is approximately Saudi Riyals 13.3 million (31 December 2017: S R 22.4 million)
- 3) Lease commitments : Saudi Riyal 734.814 Million (31 December 2017: S R 817.48 million)

	31 December 2018	31 December 2017
Within one year	73 311 271	84 083 929
Between two and five years	249 540 221	262 299 090
Greater than five years	411 962 144	471 097 169
	734 813 636	817 480 188

26- Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Company is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When measuring the fair value the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	31-Dec-18				
	Carrying amount	Fair Value			
	Other	Level 1	Level 2	Level 3	Total
Amortised cost	financial				
liability	liability				
Total	Total				
Financial Assets measured at fair value					
Investments in FVTPL	30 887 603	30 887 603	-	-	30 887 603
	30 887 603	30 887 603	-	-	30 887 603
Financial Assets not measured at fair value					
Trade and Other Receivables	175 859 893	175 859 893	-	-	-
Cash and Bank Balances	175 859 893	175 859 893	-	-	-
	351 719 786	351 719 786	-	-	-
Financial Liabilities not measured at fair value					
Loans and borrowings	-	-	245 351 328	-	245 351 328
Trade and Other Payables	-	-	245 351 328	-	245 351 328
	-	-	490 702 656	-	490 702 656

Herfy Food Services Company
(A Saudi Joint Stock Company)

Notes To The Financial Statements For The Year Ended 31 December 2018
(All Amounts in Saudi Riyals Unless Otherwise Stated)

		31-Dec-17				
		Carrying amount		Fair Value		
		Other				
Amortised cost	financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial Assets measured at fair value						
	Investments in FVTPL	559 691	559 691	559 690	-	559 690
		559 691	559 691	559 690	-	559 690
Financial Assets not measured at fair value						
	Trade and Other Receivables	165 283 215	165 283 215	-	-	-
	Cash and Bank Balances	12 704 582	12 704 582	-	-	-
		177 987 797	177 987 797	-	-	-
Financial Liabilities not measured at fair value						
	Loans and borrowings	-	-	-	329 810 272	329 810 272
	Trade and Other Payables	-	-	-	123 201 354	123 201 354
		-	-	-	453 011 626	453 011 626

27- Risk Management of Financial Instruments

The Company's activities expose it to a variety of financial risks, credit risk, liquidity risk, market price risk and capital management risk.

27-1 Credit Risk:

Credit risk is the risk that one party to financial instruments will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk on its bank balances, trade receivables and receivables from related parties as follows.

	<u>31 December 2018</u>	<u>31 December 2017</u>
Cash at Bank	10 233 767	6 469 242
Trade Receivables - Other Party	35 192 281	21 451 088
Trade Receivables - Related Party	13 567 310	19 403 346
	<u>58 993 358</u>	<u>47 323 676</u>

The carrying amount of financial assets represents the maximum credit exposure

Credit risk on receivable and bank balances is limited as:

- Cash balances are held with banks with sound credit ratings ranging from BBB+ to A 1.
- The receivable are shown net of allowance for impairment of trade receivables and sales returns.
- Financial position of related parties is stable.

The Company manages credit risk with respect to receivables from customers by monitoring in accordance with defined policies and procedures.

The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables on an ongoing basis. The receivable balances are monitored with the result that the Company's exposure to bad debts is not significant.

Trade receivables outstanding balance comprises of 100% in KSA at December 31, 2018.

27-2 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 the inability to sell a financial asset quickly at an amount close to its fair value. Following are the contractual maturities at the end of the reporting period of financial liabilities. The amounts are grossed and undiscounted, and include estimated interest payments.

	<u>31 December 2018</u>			
	Carrying Amount	Less than 1 year	1 year to 5 years	More than 5 years
Borrowings	245 351 328	100 002 605	145 348 723	-
Trade and other payables	179 299 700	179 299 700	-	-
Trade Payables to Related Party	9 640 005	9 640 005	-	-
	<u>434 291 033</u>	<u>288 942 310</u>	<u>145 348 723</u>	-
	<u>31 December 2017</u>			
	Carrying Amount	Less than 1 year	1 year to 5 years	More than 5 years
Borrowings	360 554 321	122 076 660	238 477 661	-
Trade and other payables	100 074 458	100 074 458	-	-
Trade Payables to Related Party	3 497 545	3 497 545	-	-
	<u>464 126 324</u>	<u>225 648 663</u>	<u>238 477 661</u>	-

Liquidity risk is managed by monitoring on a regular basis that sufficient funds and banking and other credit facilities are available to meet the Company's future commitments. The Company's terms of sales require amounts to be paid either on a cash on delivery or on a terms basis.

27-3 Market Risk:

Market price risk is the risk that value of a financial instrument will fluctuate as a result of changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

27-4 Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company transactions are principally in Saudi Riyals and US Dollars. As the Saudi Riyals is pegged against US Dollar, the Company does not have any significant exposure to currency risk. The Company also has some transactions in EURO, which were not significant.

	31 December 2018			
	USD	EURO	GBP	AUD
Cash at bank	833 043	91 996	-	12 144
Trade Payables	(696 824)	(122 861)	(12 034)	-
	136 219	(30 866)	(12 034)	12 144

	31 December 2017			
	USD	EURO	GBP	AUD
Cash at bank	(22 752)	276 548	-	12 144
Trade Payables	(1 217 508)	(154 400)	(13 460)	-
	(1 240 260)	122 148	(13 460)	12 144

27-5 Interest rate risk

Interest rate risks is the risk associated with the effect of fluctuation in the prevailing interest rates on the Company's financial position and cash flows. The Company interest rate arise mainly from its borrowings which are on fixed rate 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 that fair value is not significant.

27-6 Capital Management

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitor the return on capital employed and the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

- 1) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- 2) to provide an adequate return to shareholders

The Company manages the capital structure in the context of economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders and issue new shares.

The company relies heavily on long - term loans to meet its capital expenditures

1- Dividends

The Board of Directors of the Company, at its meeting held on 2018/01/31, recommended the distribution of cash dividends for the second half of 2017 in the amount of SR 71.148 million, at SR 1.1 per share, On 30 July 2018 the Board decided to distribute a dividend of SR 64.480 million for the first half of 2018 at SR 1 per share. These all Based on the mandate given to the Board by the Assembly.

28- Subsequent Events

In the opinion of the management, there have been no significant subsequent events since the year end that would have a material impact on the financial position of the Company as reflected in these Financial Statements.

29- Comparative Figures

Items, elements and notes of the comparatives Condensed Consolidated Interim Financial Statements have been redisplayed, regrouped and reclassified to meet with the applied accounting policies for the current period which have been prepared according to the International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia.

30- Board Of Directors Approval

These Financial Statements were approved by the Board of Directors on 23 JumadaII 1440 H. (28 February 2019).