HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)

THE CONDENSED INTERIM FINANCIAL STATEMENTS
AND REVIEW REPORT
FOR THE THREE AND NINE MONTH PERIODS ENDED 30 September 2017

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(A Saudi Joint Stock Company)
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SAUDI GROUP FOR ACCOUNTING
& AUDITING CO.
AL-JASSER & AL-DAKHEEL
Certified Public Accountants
REG. NO. (1/11/232)

بسم الله الرحمن الرحيم

غرفة تجارية ٣٤٣٦٧٤

المجموعة السعودية للمحاسبة والمراجعة
الجاسر و الدخيل
محاسبون ومراجعون قانونيون
سجل رقم (١/١١/٣٢٣)

INDEPENDENT AUDITORS' REPORT
ON REVIEW OF INTERIM FINANCIAL STATEMENTS

The Shareholders
Herfy Food Services Company
"A Saudi Joint Stock Company"

Introduction

We have reviewed the accompanying ٣٠ September ٢٠١٧ condensed interim financial statements of Herfy Food Services Company - A Saudi Joint Stock Company ("the Company") which comprises:

- the condensed statement of financial position as at ٣٠ September ٢٠١٧;
- the condensed statement of profit or loss for the three-month and the nine-month periods ended 30 September 2017;
- the condensed statement of comprehensive income for the three-month period and the nine-month periods ended ٣٠ September ٢٠١٧;
- the condensed statement of changes in equity for nine-month periods ended ٣٠ September 2017;
- the condensed statement of cash flows for nine-month periods ended ٣٠ September ٢٠١٧; and
- the notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS ٣٤, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of interim Financial Information Performed by the Independent Auditor of the Entity" that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying ٣٠ September ٢٠١٧ condensed interim financial statements are not prepared, in all material respects, in accordance with IAS ٣٤, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

SAUDI GROUP FOR ACCONTING & AUDITING

DAKHEEL ALI AL-DAKHEEL
LIC NO.(٩٦)

Date: ١١ Safar ١٤٣٨ H.
Corresponding to: ٢١ October ٢٠١٧.

مكتب الرياض : ص.ب ١٦٩٩٤ الرمز البريدي ١١٤٧٤ هاتف ٢٠٦٢١٢٨/٤٧٧٧٧٠٦(٠١١)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 ٦٤٥١٩٥٠/٦٤٥١٩٨٠(٠١٢)فاكس : ٦٤٥٢٣٤٠ (٠١٢)
مكتب الباحة : هاتف ٧٢٥٧٦٢٥ (٠١٧)فاكس : ٧٢٧١١٢٣ (٠١٧)
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Herfy Food Services Company
(A Saudi Joint Stock Company)
Condensed Interim Statement of Financial Position
As at 30 September 2017

(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Notes	30 September 2017 (Unaudited)	31 December 2016 (Audited)	1 January 2016 (Audited)
Assets				
Non-Current Assets				
Property, Plant and Equipment	4	1 030 713 286	1 001 573 372	907 086 188
Intangible Assets	5	11 741 802	4 290 017	2 991 871
Real Estate Investments	6	31 497 120	34 256 469	30 638 147
		1 073 952 208	**1 040 119 858**	**940 716 206**
Current Assets				
Inventories		111 442 319	101 762 034	108 946 148
Trade Receivables and Other Receivables		47 162 682	50 020 065	40 972 370
Prepayments		90 896 040	76 935 146	67 574 827
Cash and Bank Balances	7	76 524 390	73 225 799	22 908 312
		326 025 431	**301 943 044**	**240 401 657**
TOTAL ASSETS		**1 399 977 639**	**1 342 062 902**	**1 181 117 863**
EQUITY AND LIABILITIES				
EQUITY				
Share Capital	8	646 800 000	462 000 000	462 000 000
Statutory Reserve		34 183 169	138 967 946	117 218 334
Retained Earnings		138 097 997	201 740 989	146 311 222
TOTAL EQUITY		**819 081 166**	**802 708 935**	**725 529 556**
Liabilities				
Non-Current Liabilities				
Long Term Borrowings	9	224 353 801	238 477 661	198 749 750
Employee Benefits	10	61 512 567	59 275 627	53 268 680
		285 866 368	**297 753 288**	**252 018 430**
Current Liabilities				
Current Portion of LongTerm Borrowings	9	143 297 849	122 076 660	87 127 034
Trade and Other Payables		139 401 987	103 572 003	103 893 999
Accrued expenses		4 790 345	9 004 794	6 966 474
Zakat	11	7 539 924	6 947 222	5 582 370
TOTAL LIABILITIES		**295 030 105**	**241 600 679**	**203 569 877**
		580 896 473	**539 353 967**	**455 588 307**
TOTAL EQUITY AND LIABILITIES		**1 399 977 639**	**1 342 062 902**	**1 181 117 863**

The accompanying notes (1) to (20) form an integral part of these condensed interim financial statements

Herfy Food Services Company
(A Saudi Joint Stock Company)
Condensed Interim Statement Of Profit Or Loss
For The Three and Nine Month Periods Ended 30 September 2017
(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Notes	Three-month periods ended September 30		Nine-month periods ended September 30	
		2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)
Revenue		311 722 043	315 169 576	858 834 285	876 453 061
Cost of Revenue		(221 662 845)	(219 953 714)	(606 491 466)	(619 216 241)
Gross Profit		**90 059 198**	**95 215 862**	**252 342 819**	**257 236 820**
Other Revenue	12	2 980 104	18 762	8 967 812	6 648 025
Selling and Distribution Expenses		(14 212 537)	(14 254 750)	(44 077 826)	(39 730 429)
General and Administration Expenses		(18 916 821)	(18 324 562)	(54 328 225)	(53 829 238)
Operating Profit		**59 909 944**	**62 655 312**	**162 904 580**	**170 325 178**
Finance Cost		(3 024 835)	(2 188 957)	(8 002 349)	(4 948 595)
Profit before zakat		**56 885 109**	**60 466 355**	**154 902 231**	**165 376 583**
Zakat	11	(850 000)	(1 175 000)	(2 750 000)	(3 250 000)
Profit for the period		**56 035 109**	**59 291 355**	**152 152 231**	**162 126 583**
Earnings per Share (SAR), based on Profit for the period	13				
- Basic		**0.87**	**0.92**	**2.35**	**2.51**
- Diluted		**0.87**	**0.92**	**2.35**	**2.51**

The accompanying notes (1) to (20) form an integral part of these condensed interim financial statements

Herfy Food Services Company
(A Saudi Joint Stock Company)
Condensed Interim Statement Of Comprehensive Income
For The Three and Nine Month Periods Ended 30 September 2017
(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Notes	Three-month periods ended September 30		Nine-month periods ended September 30	
		2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)
Profit for the period		56 035 109	59 291 355	152 152 231	162 126 583
Total Other Comprehensive Income for the period		-	-	-	-
Total Comprehensive Income for the period		56 035 109	59 291 355	152 152 231	162 126 583

The accompanying notes (1) to (20) form an integral part of these condensed interim financial statements

Herfy Food Services Company
(A Saudi Joint Stock Company)
Condensed Interim Statement of Changes In Equity
For The Nine Month Period Ended 30 September 2017
(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Share Capital	Statutory Reserve	Retained Earnings	TOTAL EQUITY
Balance at 1 January 2016 (Audited)	**462 000 000**	**117 218 334**	**146 311 222**	**725 529 556**
Profit for the period	-	-	162 126 583	162 126 583
Other Comprehensive Loss for the period	-	-	-	-
Total Comprehensive Income	-	-	162 126 583	162 126 583
Transfer to statutory reserve	-	16 212 610	(16 212 610)	-
Dividends distributed	-	-	(140 400 000)	(140 400 000)
Balance at 30 September 2016 (Unaudited)	**462 000 000**	**133 430 944**	**151 825 195**	**747 256 139**
Balance at 01 January 2017 (Audited)	**462 000 000**	**138 967 946**	**201 740 989**	**802 708 935**
Repayment of capital	184 800 000	(120 000 000)	(64 800 000)	-
Profit for the period	-	-	152 152 231	152 152 231
Other Comprehensive Income for the period	-	-	-	-
Total Comprehensive Income	**-**	**-**	**152 152 231**	**152 152 231**
Dividends distributed	-	-	(135 780 000)	(135 780 000)
Transfer to statutory reserve	-	15 215 223	(15 215 223)	-
Balance at 30 September 2017 (Unaudited)	**646 800 000**	**34 183 169**	**138 097 997**	**819 081 166**

The accompanying notes (1) to (20) form an integral part of these condensed interim financial statements

Herfy Food Services Company
(A Saudi Joint Stock Company)
Condensed Statement Of Cash Flows
For The Nine Month Period Ended 30 September 2017
(All Amounts In Saudi Riyals Unless Otherwise Stated)

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	30 September 2017 (Unaudited)	30 September 2016 (Unaudited)
Profit for the period		152 152 231	162 126 101
Depreciation and Amortization		53 111 574	64 613 446
Provision for Employee Benefits	10	7 903 327	7 900 000
Provision for slow moving inventory		-	(8 081)
(Gain) on sale of property, plant and equipment	12	17 972	(288 186)
Financial charges		8 002 349	4 948 595
Zakat	11	2 750 000	3 250 000
		223 937 453	**242 541 875**
Changes in			
Inventories		(9 680 285)	16 898 444
Trade Receivables		2 857 383	(2 623 149)
Prepayments and Other Receivables		(13 960 894)	(21 958 297)
Accrued Expenses		(5 199 828)	33 739 885
Trade and Other Payables		35 829 984	2 488 976
Cash Used in Operating Activities		**233 783 813**	**271 087 734**
Employee Benefits Paid		(5 666 387)	(3 523 290)
Zakat payments	11	(2 157 298)	(2 885 148)
Net Cash Generated from Operating Activities		**225 960 128**	**264 679 296**
CASH FLOWS FROM I NVESTING ACTIVITIES			
Additions to Property, Plant and Equipment	4	(85 242 785)	(143 290 210)
Proceeds from sale from property, plant and equipment		257 764	13 915 074
Net Cash Used in Investing Activities		**(84 985 021)**	**(129 375 136)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in Loans	9	109 996 812	174 566 314
Finance Cost Paid		(8 940 306)	(4 978 799)
Repayment of loans and borrowings	9	(102 953 022)	(69 515 727)
Dividends distributed		(135 780 000)	(140 400 000)
Net cash flows from / (used in) financing activities		**(137 676 516)**	**(40 328 212)**
Net increase / (decrease) in cash and cash equivalents		**3 298 591**	**94 975 948**
Cash and Cash Equivalents at 01January		73 225 799	22 908 312
Cash and Cash Equivalents at 30 September	7	**76 524 390**	**117 884 260**

The accompanying notes (1) to (20) form an integral part of these condensed interim financial statements

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 September 30, 2017, the total number of restaurants owned and leased by the Company were 40 and 310 respectively (31 December 2016: 39 owned and 289 leased1 January 2016: 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 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 interim 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 Condensed Interim Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA"). Up to and including the year ended December 31, 2016, the Company prepared and presented statutory Financial Statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA and the requirements of the Saudi Arabian Regulations for Companies and the Company's By-laws in so far as they relate to the preparation and presentation of the Financial Statements. In these Condensed Interim Financial Statements, the term "SOCPA Standards" refers to SOCPA Standards before the adoption of International Financial Reporting Standards ("IFRSs").

For financial periods commencing January 1, 2017, the applicable regulations require the Company to prepare and present Financial Statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA. As part of this requirement, the Company has prepared these Condensed Interim Financial Statements.

As required by the Capital Market Authority ("CMA") through its circular dated 16th 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 period starting from the IFRS adoption date.

As these Condensed Interim Financial Statements prepared in accordance with IAS 34 Interim Financial Reporting are part of a period covered by its first IFRS Financial Statements, IFRS 1 First time Adoption of International Financial Reporting Standards has been applied. (The accounting policies followed in these Condensed Interim Financial Statements are the same as those applied in the Company's Condensed Interim Financial Statements for the period ended March 31, 2017 and June 30, 2017. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect).

An explanation of how the transition to IFRS has affected the previously reported equity as at December 31, 2016, September 30, 2016 and January 01, 2016; and comprehensive income of the Company for the year ended December 31, 2016 and for the three and nine months ended September 30, 2016, including the nature and effect of significant changes in accounting policies from those used in the Company's Financial Statements for the year ended December 31, 2016 is provided in Note 14.

These Condensed Interim Financial Statements should be read in conjunction with the Company's annual SOCPA Financial Statements for the year ended December 31, 2016, and the Company's Financial Statements for the quarter ended March 31, 2017 and June 30, 2017 prepared in accordance with IFRS applicable to Interim Financial Statements.

2-2 Basic of Preparation of The Financial Statements

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

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

2-3 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.

3 Significant accounting policies

3-1 New Standards, Amendments and Standards issued and not yet effective:

New Standards, Amendment to Standards and Interpretations:

The Company has adopted, as appropriate, the following new and amended IASB Standards, effective 1 January 2017.

(1) Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The Company's financing activities, as disclosed in Condensed Consolidated Interim Statement of Cash Flows, represents only cash flow changes, except for finance cost paid for which non cash change is reflected in cash flow from operating activities.

Standards issued but not yet effective

Following are the new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early adopted them in preparing these Financial Statements.

(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 replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. There is not going to be a significant impact on Company's revenue recognition policy.

(2) IFRS 9 Financial Instruments

IFRS 9 'Financial instruments' is effective for periods commencing on or after 1 January 2018, and covers three distinct areas. Phase 1 contains new requirements for the classification and measurement of financial assets and liabilities. Phase 2 relates to the impairment of financial assets and requires the calculation of impairment on an expected credit loss basis rather than the current incurred loss basis. Phase 3 relates to less stringent requirements for general hedge accounting. The full impact of the future adoption is currently under review.

(3) IFRS 16 Leases

IFRS 16, 'Leases' is effective for periods beginning on or after 1 January 2019. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases. The full impact of the future adoption is currently under review.

There are no other IFRS or IFRS Interpretation Committee interpretations not yet effective that would be expected to have a material impact on the Company.

3-2 Summary of significant accounting policies

The following are the principal accounting policies used in the preparation of the interim financial statements:

3-2-1 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	25 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.

3-2-2 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.

3-2-3 Zakat

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.

3-2-4 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 Condensed 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 Condensed Statement of Profit or Loss.

3-2-5 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.

3-2-6 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.

3-2-7 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 income.

3-2-8 Investment property

Investment properties are measured initially at cost. Transaction costs are included in the initial measurement. The cost of a purchased investment properties 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.

3-2-9 Operating Leases

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

3-2-10 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.

3-2-11 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 income 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.

3-2-12 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.

3-2-13 Cash and Cash Equivalents

For the purposes of the Condensed Statement of Cash Flow, 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.

3-2-14 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 Condensed 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 Condensed 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.

3-2-15 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.

3-2-16 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.

3-2-17 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 Condensed 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.