

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE-MONTH AND
NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2020
AND
INDEPENDENT AUDITOR'S REVIEW REPORT

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE-MONTH AND
NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2020
AND
INDEPENDENT AUDITOR'S REVIEW REPORT

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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS

**TO THE SHAREHOLDERS OF HERFY FOOD SERVICES COMPANY
 (A SAUDI JOINT STOCK COMPANY)**

INTRODUCTION

We have reviewed the accompanying interim statement of financial position of Herfy Food Services Company (the "Company") as at 30 September 2020 and the related interim statement of comprehensive income for the three-month and nine-month periods then ended, and the interim statements of changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "interim condensed financial statements"). Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagement 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 condensed financial statements 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 interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

For Al-Bassam & Co.

Ibrahim Ahmed Al-Bassam
 Certified Public Accountant
 License No. 337



**09 Rabi' al Awwal 1442H
 26 October 2020G
 Riyadh, Kingdom of Saudi Arabia**

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2020
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | 30 September 2020 (Unaudited) | 31 December 2019 (Audited) |
|---|------|----------------------------------|-------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 1,016,002,780 | 1,043,497,337 |
| Right of use assets | | 550,972,436 | 582,864,247 |
| Net investment in finance lease | | 9,601,646 | 10,928,911 |
| Intangible assets | | 15,113,791 | 15,442,588 |
| Investment properties | | 27,405,869 | 29,880,890 |
| | | <u>1,619,096,522</u> | <u>1,682,613,973</u> |
| Current assets | | | |
| Inventories | | 113,912,975 | 156,765,511 |
| Trade, other receivables and prepayments | | 158,233,494 | 134,471,185 |
| Net investment in finance lease – current portion | | 1,895,000 | 1,534,095 |
| Investment carried at FVTPL | 6 | 72,566,961 | 26,515,939 |
| Cash and cash equivalents | | 31,635,806 | 25,943,078 |
| | | <u>378,244,236</u> | <u>345,229,808</u> |
| TOTAL ASSETS | | <u>1,997,340,758</u> | <u>2,027,843,781</u> |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | 7 | 646,800,000 | 646,800,000 |
| Statutory reserve | | 83,726,145 | 80,498,899 |
| Retained earnings | | 225,984,605 | 270,687,385 |
| TOTAL EQUITY | | <u>956,510,750</u> | <u>997,986,284</u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Long term borrowings | 8 | 37,180,108 | 57,493,089 |
| Lease liabilities | | 547,704,639 | 496,966,719 |
| Employees' post-employment benefits | | 70,422,790 | 72,900,362 |
| | | <u>655,307,537</u> | <u>627,360,170</u> |
| Current liabilities | | | |
| Long term borrowings – current portion | 8 | 25,813,434 | 67,810,657 |
| Lease liabilities – current portion | | 43,952,280 | 82,361,166 |
| Short term loans | 9 | 100,000,000 | 70,000,000 |
| Trade and other payables | | 203,353,731 | 168,658,053 |
| Provision for zakat | 10 | 12,403,026 | 13,667,451 |
| | | <u>385,522,471</u> | <u>402,497,327</u> |
| TOTAL LIABILITIES | | <u>1,040,830,008</u> | <u>1,029,857,497</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>1,997,340,758</u> | <u>2,027,843,781</u> |
| Contingencies and Commitments | | | |
| | 11 | | |

The accompanying notes 1 to 18 form part of these interim condensed financial statements

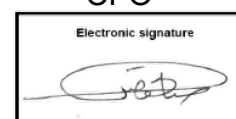
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HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2020
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | For the three-month period ended 30 September | | For the nine-month period ended 30 September | |
|--|------|--|---------------------|---|---------------------|
| | | 2020 (Unaudited) | 2019 (Unaudited) | 2020 (Unaudited) | 2019 (Unaudited) |
| Revenue | | 311,117,538 | 339,082,414 | 778,143,920 | 961,786,356 |
| Cost of revenue | | (227,128,271) | (228,130,053) | (606,828,167) | (669,211,244) |
| GROSS PROFIT | | 83,989,267 | 110,952,361 | 171,315,753 | 292,575,112 |
| Other income, net | 4 | 17,186,146 | 1,832,422 | 21,445,625 | 14,540,378 |
| Selling and distribution expenses | | (20,690,748) | (23,575,596) | (59,392,034) | (64,661,775) |
| General and administrative expenses | | (29,982,275) | (19,768,712) | (72,095,107) | (62,751,679) |
| OPERATING PROFIT | | 50,502,390 | 69,440,475 | 61,274,237 | 179,702,036 |
| Finance cost | | (7,860,386) | (10,632,505) | (24,906,401) | (29,458,650) |
| NET OPERATING PROFIT BEFORE ZAKAT | | 42,642,004 | 58,807,970 | 36,367,836 | 150,243,386 |
| Zakat | 10 | (1,264,425) | (1,264,425) | (4,095,372) | (3,793,275) |
| NET PROFIT FOR THE PERIOD | | 41,377,579 | 57,543,545 | 32,272,464 | 146,450,111 |
| Other comprehensive income for the period | | - | - | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 41,377,579 | 57,543,545 | 32,272,464 | 146,450,111 |
| Earnings per share (SR) | 12 | | | | |
| -Basic | | 0.64 | 0.89 | 0.50 | 2.26 |
| -Diluted | | 0.64 | 0.89 | 0.50 | 2.26 |

The accompanying notes 1 to 18 form part of these interim condensed financial statements

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HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020
(All amounts in Saudi Riyals unless otherwise stated)

| <u>For the nine-month period ended</u> <u>30 September 2019</u> | <u>Note</u> | <u>Share capital</u> | <u>Statutory reserve</u> | <u>Retained earnings</u> | <u>Total equity</u> |
|--|-------------|----------------------|--------------------------|--------------------------|---------------------|
| Balance as at 1 January 2019 – Audited | | 646,800,000 | 59,389,111 | 226,678,377 | 932,867,488 |
| Adjustment for IFRS 16 | | - | - | 6,928,369 | 6,928,369 |
| Adjusted balance as at 1 January 2019 – Audited | | 646,800,000 | 59,389,111 | 233,606,746 | 939,795,857 |
| Net profit for the period | | - | - | 146,450,111 | 146,450,111 |
| Other comprehensive income for the period | | - | - | - | - |
| Total comprehensive income for the period | | - | - | 146,450,111 | 146,450,111 |
| Dividends distributed | 16 | - | - | (137,561,330) | (137,561,330) |
| Transfer to statutory reserve | | - | 14,645,011 | (14,645,011) | - |
| Balance as at 30 September 2019 (Unaudited) | | <u>646,800,000</u> | <u>74,034,122</u> | <u>227,850,516</u> | <u>948,684,638</u> |

| <u>For the nine-month period ended</u> <u>30 September 2020</u> | | <u>Share capital</u> | <u>Statutory reserve</u> | <u>Retained earnings</u> | <u>Total equity</u> |
|--|----|----------------------|--------------------------|--------------------------|---------------------|
| Balance as at 1 January 2020 – Audited | | 646,800,000 | 80,498,899 | 270,687,385 | 997,986,284 |
| Net profit for the period | | - | - | 32,272,464 | 32,272,464 |
| Other comprehensive income for the period | | - | - | - | - |
| Total comprehensive profit for the period | | - | - | 32,272,464 | 32,272,464 |
| Dividends distributed | 16 | - | - | (73,747,998) | (73,747,998) |
| Transfer to statutory reserve | | - | 3,227,246 | (3,227,246) | - |
| Balance as at 30 September 2020 (Unaudited) | | <u>646,800,000</u> | <u>83,726,145</u> | <u>225,984,605</u> | <u>956,510,750</u> |

The accompanying notes 1 to 18 form part of these interim condensed financial statements

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HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | For the nine-month period ended | |
|--|------|----------------------------------|--|
| | | 30 September 2020 (Unaudited) | 30 September 2019 (Unaudited) (Restated) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net operating profit before zakat | | 36,367,836 | 150,243,386 |
| Adjustments for: | | | |
| Depreciation on property, plant and equipment | | 69,361,218 | 59,300,963 |
| Depreciation on right of use assets | | 55,918,719 | 58,548,984 |
| Depreciation on investment property | | 2,631,149 | 3,184,412 |
| Amortization of intangible assets | | 2,133,960 | 1,754,340 |
| Provision for doubtful debts | | 12,412,896 | - |
| Provision for slow-moving items | | 16,481,997 | - |
| Provision for employees' post-employment benefits | | 7,155,706 | 11,478,796 |
| Unrealized gain on investments measured at fair value | 6 | (399,634) | (76,979) |
| Realized gain on investments measured at fair value | 6 | (374,793) | (359,038) |
| Loss / (gain) on disposal of property, plant and equipment | | 2,097,299 | (1,596,229) |
| Finance cost | | 24,906,401 | 29,495,964 |
| Movement in working capital | | | |
| Inventories | | 26,370,539 | (42,952,305) |
| Trade, other receivables and prepayments | | (36,175,205) | 38,457,879 |
| Trade and other payables | | 23,318,597 | 75,402,671 |
| Cash generated from operating activities | | 242,206,685 | 382,882,844 |
| Zakat paid | 10 | (5,359,797) | (1,104,067) |
| Employees' post-employment benefits paid | | (3,005,492) | (5,638,192) |
| Net cash generated from operating activities | | 233,841,396 | 376,140,585 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (46,202,670) | (63,044,263) |
| Purchase of Investments carried at FVTPL | | (195,000,000) | (160,000,000) |
| Sale proceeds of Investments carried at FVTPL | | 150,000,000 | 150,000,000 |
| Purchase of equity investments | | (276,595) | - |
| Lease rental received | | 1,340,000 | - |
| Proceeds from the sale of property, plant and equipment | | 277,419 | 5,219,157 |
| Net cash used in investing activities | | (89,861,846) | (67,825,106) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from long term borrowings | | - | 42,713,970 |
| Repayment of long term borrowings | | (66,530,324) | (114,392,742) |
| Movement in short term loans, net | | 30,000,000 | - |
| Lease liabilities paid | | (28,008,500) | (100,058,045) |
| Dividend paid | 16 | (73,747,998) | (137,561,330) |
| Net cash used in financing activities | | (138,286,822) | (309,298,147) |
| Net change in cash and cash equivalents | | 5,692,728 | (982,668) |
| Cash and cash equivalents at beginning of the period | | 25,943,078 | 17,023,147 |
| Cash and cash equivalents at end of the period | | 31,635,806 | 16,040,479 |

The accompanying notes 1 to 18 form part of these interim condensed financial statements

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HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020
(All amounts in Saudi Riyals unless otherwise stated)

1. LEGAL STATUS AND OPERATIONS

Herfy Food Services Company ("the Company") is a Saudi Joint-Stock Company formed under the laws of the Kingdom of Saudi Arabia and registered under the commercial register under No. 7000329776 (Old No. 1010037702) on 04 Jamad-ul-Awal 1401H (corresponding to 09 March 1981).

The Company is 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, maintaining, and leases stores and food store fridges.

As at 30 September, 2020, the total number of restaurants owned and leased by the Company were 40 and 345 respectively (31 December 2019: 40 owned and 342 leased), operating in the Kingdom of Saudi Arabia under the trademark of "HERFY". The Company also operates bakeries and bakery shops "Herfy Bakeries / Doka"

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 (2 August, 2004) and in accordance with industrial license number 249/S issued on Safar 16, 1422H (9 May, 2001). The Meat factory commenced production in October 2005.

During 2012, the Company established a cake factory in Riyadh ("Cake Factory"), which operates under commercial registration number 1010294755 issued on Shawwal 20, 1431 H (29 September, 2010) and in accordance with industrial license number 11583/T issued on Shawwal 18, 1431 H (27 September, 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.

The Company's Head Office is located at the following address:

Herfy Food Services Company
Al Moroug District
P.O. Box 86958
Riyadh 11632
Kingdom of Saudi Arabia

The Company has the following branches:

| S. No | Branch | C.R. No. | Date |
|--------------|----------------------------------|-----------------|--------------|
| 1 | Herfy Meat Processing Factory | 1010200515 | 25/02/1441 H |
| 2 | Herfy Factory For Cake & Pasties | 1010294755 | 25/09/1441 H |

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020
(All amounts in Saudi Riyals unless otherwise stated)

2. BASIS OF PREPARATION

2.1. STATEMENT OF COMPLIANCE

These interim condensed financial statements of the Company have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants (“SOCPA”).

The results for the nine-month period ended 30 September 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

These interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company’s financial statements for the year ended 31 December 2019.

2.2. BASIS OF MEASUREMENT

These interim condensed financial statements are prepared under the historical cost method except for the following:

- a) Investments are measured at fair value; and
- b) Employees' post-employment benefits are recognized at the present value of future obligations using the Projected Unit Credit Method.

2.3. FUNCTIONAL AND PRESENTATION CURRENCY

These interim condensed financial statements have been presented in Saudi Riyals (SR) which is the Company's functional and presentation currency. All financial information presented in SR has been rounded to the nearest SR, unless otherwise mentioned.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements as at 31 December 2019 except for the policy explained below:

3.1. Government grant

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized under other income in the interim statement of comprehensive income for the period in which they become receivable.

3.2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

In preparing these interim condensed financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020
(All amounts in Saudi Riyals unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS (CONTINUED)

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements except for the below:

IMPAIRMENT OF FINANCIAL ASSETS

A provision for impairment of account receivables, net investment in finance lease and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the agreement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators of objective evidence that the account receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

The Company uses a provision matrix in the calculation of the expected credit losses on receivables to estimate the lifetime expected credit losses, applying certain provision rates to respective contractual past due aging buckets. The provision matrix was developed considering the probability of default and loss given default which was derived from historical data of the Company and is adjusted to reflect the expected future outcome which includes macro-economic factors

IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL")

On 11 March 2020, the World Health Organization ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia, in particular, has implemented closure of borders, released social distancing guidelines and enforced countrywide lockdowns and curfews.

Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volume which had predated the pandemic.

Collectively, these current events and the prevailing conditions require the Company to analyze the likely impact of these events on the Company's business operations. The Board of Directors and the management of the Company have evaluated the current situation and accordingly, have activated its business continuity planning and other risk management practices to manage the potential business disruption COVID-19 outbreak may have on its operations and financial performance. Under the current situation, the scale and duration of this outbreak and its impact on credit, market and operational risks remain uncertain and the board of directors and management of the Company is continuously evaluating the evolving situation in liaison with the regulatory authorities and the related quantification of impact cannot be ascertained at this point.

During the period the Company has received government grant amounting to SR 1,031,280 from Saudi Electric Company for reimbursement of utilities costs, also refer note 3.1. These grants are recognized under other income in interim statement of comprehensive income.

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020
(All amounts in Saudi Riyals unless otherwise stated)

4. NEW AMENDED STANDARDS AND INTERPRETATIONS:

NEW AMENDED STANDARDS AND INTERPRETATIONS THAT ARE EFFECTIVE:

There are no new standards issued, however, there are number of amendments to standards which are effective from 1 January 2020, but they do not have a material effect on the Company's interim condensed financial statements except for the below.

In the current period, the Company has adopted a new interpretation issued by the International Financial Reporting Interpretation Committee ("IFRIC") that is voluntary for adoption in the annual periods beginning on or after 1 June 2020.

The amendment permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and instead account for those rent concessions as if they are not lease modifications. The Company has applied practical expedient for rent contracts that meets the conditions. Rent concession amounting to SR 11 million for the rent contract are recognized in the interim statement of comprehensive income over the concession period.

NEW AMENDED STANDARDS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE:

There are no new standards issued, however, there are number of amendments to standards which are effective from 1 January 2021, but they do not have a material effect on the Company's interim condensed financial statements.

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020
(All amounts in Saudi Riyals unless otherwise stated)

5. RELATED PARTY TRANSACTIONS AND BALANCES

| Transactions during the period | | | For the nine-month period ended | |
|---------------------------------------|-------------------------------|---|--|--------------------------|
| Names of Related Parties | Nature of Relationship | Nature of transactions | 30 September 2020 | 30 September 2019 |
| Panda Retail company (PRC) | Affiliate | Sales to the affiliated Company | 29,591,016 | 20,239,184 |
| | | Rent charged by the affiliate to the Company | 1,963,125 | 2,771,582 |
| Bazbazah Int Company | Affiliate | Sales to the affiliated Company | 362,790 | 216,508 |
| | | Rent charged by the affiliate to the Company | 326,250 | 326,250 |
| Taza Restaurant Co. Ltd. | Affiliate | Rent charged by the Company to the affiliate | 185,376 | 185,376 |
| | | Sales to the affiliated Company | 1,694,253 | 1,794,719 |
| Mr. Ahmed Al Saeed | Shareholder | Management fees & others to the shareholder | 1,184,052 | 5,338,372 |
| Kinan Company | Affiliate | Rent charged by the shareholder to the Company | 472,500 | 472,500 |
| | | Rent charged by the affiliate to the Company | 108,329 | 177,387 |
| Qitaf Company | Affiliate | Rent charged by the affiliate to the Company | 1,500,000 | 1,500,000 |
| Mr. Khalid Al Saeed | Board Member | Rent charged by the board member to the Company | 150,000 | 150,000 |
| Afia International Co. | Affiliate | Purchases from the affiliated Company | 1,949,991 | 1,429,954 |
| Mama Sauce Factory | Affiliate | Purchases from the affiliated Company | 9,878,400 | 13,572,961 |
| United Sugar Factory | Affiliate | Purchases from the affiliated Company | 1,921,478 | 1,482,230 |
| Al Marai Co. | Affiliate | Purchases from the affiliated Company | 3,674,669 | 4,522,019 |
| International Food Industrial Co, | Affiliate | Purchases from the affiliated Company | 2,875,978 | 2,558,301 |

Management fees

In accordance with the Company's Bylaws, the Board of Directors are 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 fee to be paid annually as management fee to the Managing Director, Mr. Ahmed AL Saeed, who is also a shareholder. Such amount is charged to the interim statement of comprehensive income and included within general and administrative expenses.

HERFY FOOD SERVICES COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020
(All amounts in Saudi Riyals unless otherwise stated)

5. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Balances as at

| | 30 September 2020 | 31 December 2019 |
|--|--------------------------|-------------------------|
| | (Unaudited) | (Audited) |
| Due from related parties – Trade, other receivables and prepayments | | |
| Panda Retail Company | 10,422,955 | 11,087,334 |
| Bazbazah Int Company | 696,898 | 133,525 |
| Qitaf Company | 589,001 | - |
| Taza Restaurant Co. Ltd. | 385,149 | 315,462 |
| | <u>12,094,003</u> | <u>11,536,321</u> |
| | | |
| | 30 September 2020 | 31 December 2019 |
| | (Unaudited) | (Audited) |
| Due to related parties – Trade and other payables | | |
| Mama Sauce Factory | 1,933,998 | 1,112,481 |
| Mr. Ahmed Hamad Al Saeed | 1,265,345 | 3,944,164 |
| International Food Industrial Co, Al Marai Co. | 746,162 | 565,877 |
| United Sugar Factory | 492,993 | 143,020 |
| Afia International Co. | 355,585 | 307,390 |
| Kinan Company | 339,950 | 245,557 |
| | 303,327 | 257,245 |
| | <u>5,437,360</u> | <u>6,575,734</u> |

6. INVESTMENT CARRIED AT FVTPL

| | Note | 30 September 2020 | 31 December 2019 |
|----------------------------|-------------|--------------------------|-------------------------|
| | | (Unaudited) | (Audited) |
| Al-Rajhi Commodities Fund | 6.1 | 72,082,165 | 26,515,939 |
| Equity Investment - Quoted | 6.2 | 484,796 | - |
| | | <u>72,566,961</u> | <u>26,515,939</u> |

- 6.1.** The Company has invested in Al-Rajhi Commodities Fund – SAR. Managed by Al-Rajhi Capital and these Investments are carried at fair value through profit and loss (“FVTPL”). The movement in investments in Al-Rajhi Commodities Fund is as follows:

| | For the nine-month period ended | For the year ended |
|---|--|---------------------------|
| | 30 September 2020 | 31 December 2019 |
| | (Unaudited) | (Audited) |
| Balance at beginning of the period / year | 26,515,939 | 30,887,603 |
| Purchase during the period / year | 195,000,000 | 235,000,000 |
| Redemption during the period / year | (150,000,000) | (240,000,000) |
| Realized gain during the period / year | 374,793 | 576,805 |
| Unrealized gain during the period / year | 191,433 | 51,531 |
| Balance at the end of the period / year | <u>72,082,165</u> | <u>26,515,939</u> |

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6. INVESTMENT CARRIED AT FVTPL (CONTINUED)

6.2. The movement of investments in quoted equity shares is as follows:

| | For the nine-month period ended 30 September 2020 (Unaudited) | For the year ended 31 December 2019 (Audited) |
|---|--|--|
| Balance at beginning of the period / year | - | - |
| Purchase during the period / year | 276,595 | - |
| Unrealized gain during the period / year | 208,201 | - |
| Balance at the end of the period / year | 484,796 | - |

7. SHARE CAPITAL

The Company's paid-up capital consists of 64.680 million shares (31 December 2019: 64.680 million shares) of SAR 10 each.

8. LONG TERM BORROWINGS

| | Note | 30 September 2020 (Unaudited) | 31 December 2019 (Audited) |
|--------------------------------|-------------|--|---------------------------------------|
| Al Rajhi Bank | 8.1 | 48,359,977 | 93,689,931 |
| SABB Bank | | 10,083,565 | 13,983,565 |
| SIDF loan | 8.2 | 4,550,000 | 17,630,250 |
| | | 62,993,542 | 125,303,746 |
| | | 30 September 2020 (Unaudited) | 31 December 2019 (Audited) |
| Current portion | | | |
| Long-term financial facilities | | 25,813,434 | 67,810,657 |
| Non-current portion | | | |
| Long-term financial facilities | | 37,180,108 | 57,493,089 |
| | | 62,993,542 | 125,303,746 |

8.1. The Company has obtained facilities with Al Rajhi bank. These unsecured facilities are payable in semi-annual installments over the period of three years. These bank facilities bear finance costs at market prevailing rates.

8.2. Under the terms of the Saudi Industrial Development Fund ("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 respectively.

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8. LONG TERM BORROWINGS (CONTINUED)

- 8.2.** These loans are Interest-free and are repayable in semi-annual installments over the period of five years. The Company has also paid an administrative fee over the period of the financial facility which has been incorporated in semi-annual installments. 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.
- 8.3.** As of 30 September 2020, the Company was not in compliance with certain covenants of the financing agreements. However, the management believes that the financiers will not exercise their right to demand accelerated / immediate payment of the outstanding balance from the Company.
- 8.4.** The long term loans includes finance cost payable amounting to SR 2,126,372 (2019: SR 4,782,501).

9. SHORT TERM LOANS

The Company has obtained Murabaha Liquidity Finance by Metal (Tawarruq) with SABB Bank. These unsecured facilities are repriced every three months and bear finance costs at market prevailing rates.

10. PROVISION FOR ZAKAT

The movement in the provision for zakat is as follows:

| | For the nine-month period ended 30 September 2020 (Unaudited) | For the year ended 31 December 2019 (Audited) |
|---|--|--|
| Balance at the beginning of the period / year | 13,667,451 | 9,713,818 |
| Provided during the period / year | 3,793,275 | 5,057,700 |
| Adjustment of prior period / year charge | 302,097 | - |
| | 4,095,372 | 5,057,700 |
| Payment during the period / year | (5,359,797) | (1,104,067) |
| Balance at the end of the period / year | 12,403,026 | 13,667,451 |

10.1. STATUS OF ASSESSMENTS

Zakat return for the year ended 31 December 2019 has been filed and are under review with the General Authority of Zakat and Tax ("GAZT"). The Company has obtained a certificate from the GAZT valid 18 Ramadan 1442H corresponding to 30 April 2021.

During the period, the Company has received zakat assessment from the GAZT Authority for an additional zakat amounting to SR 3.6 million for the year 2014 against which the Company has filed an appeal, and paid 10% of the additional zakat to the GAZT as a security in this regard. No provision has been recorded in these financial statements in this respect, as the Company is confident of a favorable outcome on this matter.

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11. CONTINGENCIES AND COMMITMENTS

a) Contingencies

The Company is liable for the bank guarantees issued on behalf of the Company amounting to SR 5.2 million (31 December 2019: SR 7.65 million) and letters of credit issued on behalf of the Company amounting to nil (31 December 2019: SR 3.65 million) in the normal course of business.

b) Commitments

The capital expenditure committed by the Company but not incurred till 30 September 2020 amounting to SR 10.2 million (31 December 2019: SR 8.4 million).

12. EARNINGS PER SHARE

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

| | For the nine-month period ended 30 September 2020 (Unaudited) | For the nine-month period ended 30 September 2019 (Unaudited) |
|---|--|--|
| Income for the period | <u>32,272,464</u> | 146,450,111 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings | 64,680,000 | 64,680,000 |
| Earnings per share (SR) | | |
| -Basic | <u>0.50</u> | <u>2.26</u> |
| -Diluted | <u>0.50</u> | <u>2.26</u> |

Earnings per share for the period was calculated by dividing the net profit for the period with 64.68 million shares.

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13. 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 producers of Meat Factory; and
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 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 the Company at the end of every reporting period, review the above segments for quantitative threshold as well as criteria for presenting the revenues and expenses for the segments.

13.1. Selected financial information for the period ended 30 September 2020 and 30 September 2019, summarized by the above business segments, was as follows: (in thousand Saudi Riyal)

| | Restaurants and catering | | Meat factory | | Bakeries and other | | Total | |
|-----------------------|---|-------------|---|-------------|---|-------------|---|-------------|
| | For the nine-month period ended 30 September (Unaudited) | | For the nine-month period ended 30 September (Unaudited) | | For the nine-month period ended 30 September (Unaudited) | | For the nine-month period ended 30 September (Unaudited) | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Total segment revenue | 592,526 | 822,077 | 117,558 | 108,217 | 136,659 | 123,491 | 846,743 | 1,053,785 |
| Inter-segment revenue | - | - | (56,617) | (76,164) | (11,982) | (15,835) | (68,599) | (91,999) |
| Net revenue | 592,526 | 822,077 | 60,941 | 32,053 | 124,677 | 107,656 | 778,144 | 961,786 |
| Net (loss) / income | (28,907) | 92,964 | 39,109 | 31,640 | 22,070 | 21,846 | 32,272 | 146,450 |
| Total assets | 1,657,496 | 1,673,334 | 102,057 | 121,451 | 237,788 | 262,319 | 1,997,341 | 2,057,104 |
| Total liabilities | 973,215 | 1,029,449 | 25,748 | 20,857 | 41,867 | 58,114 | 1,040,830 | 1,108,420 |

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14. FAIR VALUES OF 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 Company uses market observable data as far as possible. Fair values are categorized 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 prices).

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

The Company's financial assets consist of cash and bank balances, investment, restricted cash deposits and other receivables, its financial liabilities consist of trade payables, financial facilities and other liabilities.

The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement

All financial assets and liabilities are measured at amortized cost except investment carried at FVTPL. The carrying amounts of all other financial assets and financial liabilities measured at amortized cost approximate to their fair values.

| | Fair value Level | | | |
|--------------------------------------|-------------------------|------------|----------|--------------|
| 30 September 2020 (Unaudited) | 1 | 2 | 3 | Total |
| FINANCIAL ASSET | | | | |
| Investment carried at FVTPL | | | | |
| Al-Rajhi Commodities Fund | - | 72,082,165 | - | 72,082,165 |
| Equity investment | 484,796 | - | - | 484,796 |
| | | | | |
| 31 December 2019 (Audited) | 1 | 2 | 3 | Total |
| FINANCIAL ASSET | | | | |
| Investment carried at FVTPL | | | | |
| Al-Rajhi Commodities Fund | - | 26,515,939 | - | 26,515,939 |

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14. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The above financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined:

| <u>Financial assets / financial liabilities</u> | <u>Valuation technique(s) and key input(s)</u> | <u>Significant unobservable input(s)</u> | <u>Relationship and sensitivity of unobservable inputs to fair value</u> |
|---|--|--|--|
| Al-Rajhi Commodities Fund | Net Assets Value | N/A | N/A |

15. RESTATEMENT / RECLASSIFICATION FOR PRIOR PERIODS FIGURES

Interim statement of cashflows has been restated in accordance with the requirements of IFRS. Certain comparative information has also been reclassified to conform to the current period presentation.

16. DIVIDENDS

On 27 Sha'ban 1441H, corresponding to 20 April 2020G, the shareholders in their Annual General Meeting approved dividends of SR 1.1 per share (2019: SR 1.1 per share during the 2nd Quarter and SR 1 per share during the 3rd Quarter) which was paid on 14 Ramadan 1441H corresponding to 7 May 2020G.

17. SUBSEQUENT EVENTS

There have been no significant subsequent events since the period-ended that would require additional disclosure or adjustment in these interim condensed financial statements (see Note 3).

18. DATE OF AUTHORIZATION FOR ISSUE

These interim condensed financial statements were approved and authorized for issue on 26 October 2020G (corresponding to 9 Rabi' al Awwal 1442H) by the Board of Directors of the Company.