

**L'AZURDE COMPANY FOR JEWELRY
AND ITS SUBSIDIARIES**
(A SAUDI JOINT STOCK GROUP)

**REVIEWED INTERIM CONDENSED
CONSOLIDATED FINANCIAL
STATEMENTS AND REVIEW REPORT
FOR THE THREE MONTHS PERIOD
ENDED 31 MARCH 2018**

**L'AZURDE COMPANY FOR JEWELRY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

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Aldar Audit Bureau
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**Independent auditor's review report
To the shareholders of L'azurde Group for Jewelry and Its Subsidiaries
(A Saudi Joint Stock Group)
Riyadh, Saudi Arabia**

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of **L'azurde Company for Jewelry and Its Subsidiaries (a Saudi joint stock Company)** ("the Group") as of 31 March 2018 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the period then ended and the related notes (1) to (14) which form an integral part of these interim condensed consolidated financial information. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting', as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', as endorsed in the Kingdom of Saudi Arabia. A review of interim condensed 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 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 information is not prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting' as endorsed in the Kingdom of Saudi Arabia.

Riyadh, 8 Sha'ban 1439H
Corresponding to 24 April 2018



**Aldar Audit Bureau
Abdullah Al Basri & Co.**


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**L'AZURDE COMPANY FOR JEWELRY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018**

	Notes	31 March 2018 (Unaudited) SAR	31 December 2017 (Audited) SAR
ASSETS			
Non-Current Assets			
Property and equipment	5	77,300,481	77,111,917
Intangible assets		602,619	633,861
Other non-current assets		1,037,416	999,495
Total Non-Current Assets		78,940,516	78,745,273
Current Assets			
Inventories		794,636,624	915,031,906
Accounts receivable		610,606,022	459,546,951
Other current assets		30,846,614	26,799,657
Cash margins		153,121,295	110,141,983
Cash and cash equivalents		34,459,316	57,431,809
Total Current Assets		1,623,669,871	1,568,952,306
TOTAL ASSETS		1,702,610,387	1,647,697,579
EQUITY AND LIABILITIES			
Equity			
Share capital	6	430,000,000	430,000,000
Statutory reserve		20,420,130	20,420,130
Retained earnings		143,501,856	131,517,388
Foreign currency translation reserve		(174,909,268)	(175,478,759)
Total Equity		419,012,718	406,458,759
Liabilities			
Non-Current Liabilities			
Employees' end of service benefits	7	34,408,315	37,637,949
Deferred tax liability		559,909	555,171
Total Non-Current Liabilities		34,968,224	38,193,120
Current Liabilities			
Accounts payable and other current liabilities		42,313,456	45,459,745
Short-term bank and murabaha facilities	8	1,179,431,376	1,134,172,386
Zakat and income tax liability		26,884,613	23,413,569
Total Current Liabilities		1,248,629,445	1,203,045,700
Total Liabilities		1,283,597,669	1,241,238,820
TOTAL EQUITY AND LIABILITIES		1,702,610,387	1,647,697,579


Ayman Gamil
Chief Financial Officer


Selim Chidiac
Chief Executive Officer


Rabih Michel Khouri
Authorized Board Member

The annexed notes from 1 - 14 form an integral part of these Interim Condensed Consolidated Financial Statements

**L'AZURDE COMPANY FOR JEWELRY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

	Notes	31 March 2018 (Unaudited) SAR	31 March 2017 (Unaudited) SAR
REVENUE			
Gold		439,604,152	482,781,938
Operations		115,029,248	121,906,587
		<u>554,633,400</u>	<u>604,688,525</u>
COST OF REVENUE			
Gold		(439,604,152)	(482,781,938)
Operations		(46,570,572)	(47,756,553)
		<u>68,458,676</u>	<u>74,150,034</u>
GROSS PROFIT			
OPERATING EXPENSES			
Selling and marketing expenses		(34,638,137)	(30,422,632)
General and administration expenses		(10,780,794)	(8,910,363)
OPERATING INCOME		<u>23,039,745</u>	<u>34,817,039</u>
OTHER INCOME / (EXPENSES)			
Other income – net		(1,991,594)	387,474
Finance charges – net		(8,552,672)	(8,207,957)
NET PROFIT BEFORE ZAKAT AND TAXES		<u>12,495,479</u>	<u>26,996,556</u>
Zakat	9	(3,044,203)	(4,447,548)
Income tax	9	(422,143)	(560,999)
NET PROFIT FOR THE PERIOD		<u>9,029,133</u>	<u>21,988,009</u>
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO			
Equity holders of the parent		<u>9,029,133</u>	<u>21,988,009</u>
EARNINGS PER SHARE			
Basic	10	0.21	0.51
Diluted	10	0.21	0.51



Ayman Gamil
Chief Financial Officer



Selim Chidiac
Chief Executive Officer



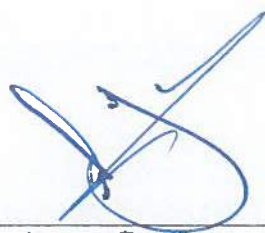
Rabih Michel Khouri
Authorized Board Member

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**L'AZURDE COMPANY FOR JEWELRY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME
FOR THE MONTHS PERIOD ENDED 31 MARCH 2018**

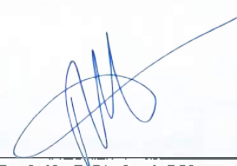
	31 March 2018 (Unaudited) SAR	31 March 2017 (Unaudited) SAR
NET PROFIT FOR THE PERIOD	9,029,133	21,988,009
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to profit or loss		
Re-measurement on employees' end of service benefits	2,955,335	471,281
Items that will be reclassified subsequently to profit or Loss		
Exchange differences on translation of foreign operations	569,491	(1,313,123)
Other comprehensive income / (loss) for the period – net of tax	3,524,826	(841,842)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	12,553,959	21,146,167
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO		
Equity holders of the parent	12,553,959	21,146,167



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Authorized Board Member

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**L'AZURDE COMPANY FOR JEWELRY AND ITS SUBSIDIARIES
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**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

	Share Capital (Unaudited)		Statutory Reserve (Unaudited)		Retained Earnings (Unaudited)		Foreign Currency Translation Reserve (Unaudited)		Total (Unaudited)	
	SAR		SAR		SAR		SAR		SAR	
THREE MONTHS PERIOD ENDED 31 MARCH 2017										
Balance at 1 January 2017 (Audited)	430,000,000		17,265,738		131,129,053		(175,923,524)		402,471,267	
Net profit for the period	-		-		21,988,009		-		21,988,009	
Other comprehensive income for the period	-		-		471,281		(1,313,123)		(841,842)	
Total comprehensive income for the period	-		-		22,459,290		(1,313,123)		21,146,167	
Dividends	-		-		(1,844,430)		-		(1,844,430)	
Balance at 31 March 2017 (Unaudited)	430,000,000		17,265,738		151,743,913		(177,236,647)		421,773,004	
THREE MONTHS PERIOD ENDED 31 MARCH 2018										
Balance at 1 January 2018 (Audited)	430,000,000		20,420,130		131,517,388		(175,478,759)		406,458,759	
Net profit for the period	-		-		9,029,133		-		9,029,133	
Other comprehensive income for the period	-		-		2,955,335		569,491		3,524,826	
Total comprehensive income for the period	-		-		11,984,468		569,491		12,553,959	
Dividends	-		-		-		-		-	
Balance at 31 March 2018 (Unaudited)	430,000,000		20,420,130		143,501,856		(174,909,268)		419,012,718	


Aymen Gami
Chief Financial Officer


Rabih Michel Khouri
Authorized Board Member



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Chief Executive Officer


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**L'AZURDE COMPANY FOR JEWELRY AND ITS SUBSIDIARIES
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**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

	Notes	31 March 2018 (Unaudited) SAR	31 March 2017 (Unaudited) SAR
OPERATING ACTIVITIES			
Net profit before zakat and taxes		12,495,479	26,996,556
Adjustments to reconcile net profit before zakat and taxes to net cash from operating activities:			
Depreciation on property and equipment		2,622,468	2,562,468
Amortization of intangible assets		73,383	60,180
Provision for employees' end of service benefits	7	1,233,656	871,301
Provision for doubtful receivables		1,176,392	173,236
Finance cost - net		8,552,672	8,207,957
Gain on sale of property and equipment		(373,068)	(99,708)
Melting cost and charge for slow moving inventory		3,224,963	(1,262,992)
Foreign currency exchange differences - net		1,002,893	(890,436)
Operating income before changes in working capital		30,008,838	36,618,562
Net changes in working capital:			
Accounts receivable		(153,925,372)	(198,815,837)
Inventories		118,160,897	112,103,163
Other current assets		(3,927,896)	(557,138)
Accounts payable and other current liabilities		(2,878,218)	(13,178,623)
Short-term bank and murabaha facilities		11,258,990	61,397,581
Cash used in operating activities		(1,302,761)	(2,432,292)
Employees' end of service benefits paid	7	(1,513,279)	(1,508,871)
Finance cost paid		(8,911,017)	(11,068,243)
Income taxes paid		(25,208)	(446,802)
NET CASH USED IN OPERATING ACTIVITIES		(11,752,265)	(15,456,208)
INVESTING ACTIVITIES			
Purchase of property and equipment	5	(3,225,154)	(5,174,484)
Proceeds from sale of property and equipment		1,007,747	1,098,808
Purchase of intangible assets		(41,820)	(520)
Other non-current assets		(37,921)	(35,639)
NET CASH USED IN INVESTING ACTIVITIES		(2,297,148)	(4,111,835)
FINANCING ACTIVITIES			
Cash facilities		34,000,000	-
Cash margins		(42,979,312)	20,392,715
NET CASH (USED) IN) / GENERATED FROM FINANCING ACTIVITIES		(8,979,312)	20,392,715
NET CHANGE IN CASH AND CASH EQUIVALENTS		(23,028,725)	824,672
Cash and cash equivalents at beginning of the period		57,431,809	38,518,470
Exchange differences on cash and cash equivalents		56,232	(39,253)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		34,459,316	39,303,889


Ayman Gamil
Chief Financial Officer


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Authorized Board Member

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**L'AZURDE COMPANY FOR JEWELRY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

L'azurde Company for Jewelry (the "Company") is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010221531 dated 26 Jumad Thani 1427H (corresponding to 22 July 2006).

The Company and its subsidiaries (together referred to as the "Group") are engaged in the production, manufacturing, forming and forging golden wares, jewelry, precious stones and golden alloys in accordance with the ministerial resolution number 1354/S dated 21 April 2008 corresponding to 15 Rabi Thani 1429H. The Group's other permissible activities include distribution of glasses, watches, accessories, pens, perfumes, leather products and export of gold wares, alloys and silver.

The Group carries out its activities through various branches in the Kingdom of Saudi Arabia and Kuwait and through subsidiaries in the Kingdom of Saudi Arabia, the United Arab Emirates, the Arab Republic of Egypt and the State of Qatar. All these branches and subsidiaries are engaged in the trading of jewelry, gold and silver products.

The Parent Company directly owns 100% share capital in each subsidiary except L'azurde Company for Jewellery LLC ("LCJ Qatar") in the State of Qatar. The direct ownership of the Parent Company in LCJ Qatar is 49%, however, based on the agreement with the nominee shareholder of LCJ Qatar, the Parent Company is entitled to 98% of the economic benefits of LCJ Qatar. The Ultimate Holding Company of the Group is L'azurde Holding LLC based in the Kingdom of Saudi Arabia.

The Group carries out its activities through the following subsidiaries as set out below:

- a) **ORO Egypt For Manufacturing Precious Metals ("ORO")**
ORO is a Joint Stock Company incorporated in the Arab Republic of Egypt under Commercial Registration no. 7877 dated 27 January 2003. The principal activities of ORO are gold jewelry manufacturing and trading.
- b) **L'azurde Company for Jewellery LLC ("LCJ Egypt")**
LCJ Egypt is a Limited Liability Company incorporated in the Arab Republic of Egypt under Commercial Registration no. 14997 dated 08 June 2005. The principal activities of LCJ Egypt are gold jewelry manufacturing and trading.
- c) **L'azurde Company for Jewelry LLC ("LCJ Dubai")**
LCJ Dubai is a Limited Liability Company incorporated in the United Arab Emirates (Dubai) under Commercial Registration no. 620369 dated 10 November 2008. The principal activity of LCJ Dubai is trading of gold jewelry items.
- d) **L'azurde Jewellery LLC ("LJ Abu Dhabi")**
LJ Abu Dhabi is a Limited Liability Company incorporated in the United Arab Emirates (Abu Dhabi) under Commercial Registration no. 1060233 dated 19 October 2003. The principal activity of LJ Abu Dhabi is trading of gold jewelry items.
- e) **L'azurde Company for Jewellery LLC ("LCJ Qatar")**
LCJ Qatar is a Limited Liability Company incorporated in the State of Qatar under Commercial Registration no. 60716 dated 21 May 2013. The principal activity of LCJ Qatar is trading of gold jewelry items.
- f) **Almujwharat Almasiah LLC ("AA")**
AA is a Limited Liability Company incorporated in the Kingdom of Saudi Arabia under Commercial Registration number 1010236734 dated 25 Rajab 1428H (corresponding to 8 August 2007). The principal activities of AA are trading of gold and silver products and precious stones.

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(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (continued)

g) Kenaz LLC ("Kenaz")

Kenaz is a Limited Liability Company incorporated in the Kingdom of Saudi Arabia under Commercial Registration no. 1010352574 dated 21 Dhul Qadah 1433H (corresponding to 6 October 2012). The principal activities of Kenaz are trading of gold and silver products and precious stones.

h) L'azurde Group for Gold and Jewellery DMCC ("L'azurde DMCC")

L'azurde DMCC is a Limited Liability Company registered with Dubai Multi Commodities Centre Authority, U.A.E under Trade License No. DMCC 108442 dated 26 February 2015. The principal activity of L'azurde DMCC is trading of pearls, precious stones and gold jewellery.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting as endorsed in Kingdom of Saudi Arabia by Saudi Organization for Certified Public Accountants ("SOCPA") and other standards and pronouncements issued by SOCPA. The interim condensed financial statements should be read in conjunction with the Group's last annual audited consolidated financial statements as at and for the year ended 31 December 2017. They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

This is the first set of interim condensed consolidated financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies have been disclosed in note 4.

The interim condensed consolidated financial statements for the period ended 31 March 2018 were approved and authorized for issue by the Board of Directors on 24 April 2018.

2.2 Preparation of the Financial Statements

These interim condensed consolidated financial statements have been prepared under historical cost basis except for employees' end of service benefits provision which has been valued by an independent professional actuary. All the amounts are presented in Saudi Riyal (SAR), which is also the functional and presentational currency of the Parent Company and rounded off to the nearest Saudi Riyal except for earnings per share.

2.3 Use of Estimates and Judgments

The preparation of interim condensed consolidated financial statements in accordance with IFRSs applicable in the Kingdom of Saudi Arabia requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**L'AZURDE COMPANY FOR JEWELRY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The nature and the effect of these changes are further disclosed in note 4. Although these amendments apply for the first time in 2018, but they do not have a material impact on the interim condensed consolidated financial statements of the Group. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

4.1 New Standards adopted as at 1 January 2018

The Group has initially adopted IFRS 15 'Revenue from Contracts with Customers' (see A) and IFRS 9 'Financial Instruments' (see B) from 1 January 2018. The Group has not early adopted any other standards, interpretations or amendments that have been issued but not yet effective.

(A) IFRS 15 Revenue from Contracts with Customers

The new standard establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the customer obtains control of the goods or services. IFRS 15 supersedes IAS 11, Construction Contracts and IAS 18, Revenue as well as related interpretations.

The introduction of this standard does not have a material impact on the results of the Group due to the relatively straightforward contractual terms and conditions with customers. However, the existing accounting policy for revenue has been further elaborated as follows:

Revenue from Gold

Revenue from sale of gold refers to the value of gold weight sold to the wholesale customers. Revenue is recognised at the time of issuing invoices and delivering the quantities of jewelry stated in the invoices when the Group has performed its obligation as agreed in the contract, at the then price of gold in the international markets.

Revenue from Operations

Revenue from operations refers to the added value component of the jewelry piece namely labor service charge, value of additions, sales of diamond jewelry and other revenues generated through wholesale and retail channels.

Revenue from operations is recognised in accordance with the fair value of the consideration received or receivable at the time the performance obligation is satisfied. The performance obligation is performed when the promised goods are delivered to the customers. Revenue is reduced for applicable discounts relating to the items sold.

(B) IFRS 9 Financial Instruments

The new standard for financial instruments (IFRS 9) replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

**L'AZURDE COMPANY FOR JEWELRY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (continued)

4.1 New Standards adopted as at 1 January 2018 (continued)

(B) IFRS 9 Financial Instruments (continued)

i) 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 does not have a significant effect on the Group's accounting policies related to financial assets and financial liabilities and the classification of financial assets. Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; 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 in a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specific 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 FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as 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 loss. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gains or losses on derecognition is recognised in profit or loss.

ii) Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

**L'AZURDE COMPANY FOR JEWELRY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018**

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (continued)

4.1 New Standards adopted as at 1 January 2018 (continued)

(B) IFRS 9 Financial Instruments (continued)

ii) Impairment of financial assets (continued)

For accounts receivable, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has already a provision matrix in place that is based on the Group's historical credit loss experience and also includes the forward-looking factors specific to the accounts receivable and the economic environment under which the Group operates.

Credit-impaired financial assets

At each reporting period, the Group 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

Allowance for credit losses for financial assets that are measured at amortised cost are deducted from the gross carrying amount of the financial assets.

Credit losses for accounts receivable are presented in the interim condensed consolidated statement of profit or loss under selling and marketing expenses.

iii) Transition

The Group has not taken any exemption in relation to first time adoption of IFRS 9 as the adoption of the new standard does not have a significant impact on the accounting policies relating to financial liabilities and financial assets and classification of financial assets. The assessments related to determination of business model within which a financial asset is held have been made on the basis of the facts and circumstances that existed at the date of initial application.

4.2 New 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 yet early adopted them in preparing these condensed interim consolidated financial statements.

a) IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises 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 optional 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 Group has completed an initial assessment of the potential impact on its Consolidated Financial Statements but has not yet completed its detailed assessment. Management anticipates that IFRS 16 will be adopted in the Group's consolidated financial statements for the annual year beginning 1 January 2019. The application of IFRS 16 may have a significant impact on amounts reported and disclosures made in the Group's financial statements. However, it is not practicable to provide a reasonable estimate of effects of the application of this standard until the Group performs a detailed review.

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4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (continued)

4.2 New Standards issued but not yet effective (continued)

b) Annual Improvements to IFRSs 2015–2017 Cycle

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

IAS 12 Income Taxes - clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity.

IAS 23 Borrowing Costs - clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

c) IFRIC 23 Uncertainty over Income Tax Treatments – Seeks to bring clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether it's probable that the tax authority will accept the Group's chosen tax treatment.

d) Other Amendments

The following amendment to standards are not yet effective and neither expected to have a significant impact on the Group's Consolidated Financial Statements:

- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendments, Curtailment or Settlement (Amendments to IAS 19)

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5. PROPERTY AND EQUIPMENT

Details of additions and disposals / transfers in property and equipment during the period are as follows:

	31 March 2018 (Unaudited) SAR	31 March 2017 (Unaudited) SAR
<u>Additions – at cost</u>		
Operating property and equipment	2,509,610	2,472,340
Capital work in progress	715,544	2,702,144
	<u>3,225,154</u>	<u>5,174,484</u>
<u>Disposals / transfers</u>		
Operating property and equipment - at net book value	(591,992)	(120,726)
Capital work in progress - at cost	(42,687)	(958,905)

6. SHARE CAPITAL

The authorized and paid up share capital of the Group as at 31 March 2018 is SAR 430,000,000 (31 December 2017: SAR 430,000,000), divided into 43,000,000 shares as at 31 March 2018 (31 December 2017: 43,000,000 shares) with a face value of SAR 10 per share.

	31 March 2018 (Unaudited)	31 December 2017 (Audited)
Shares issued and fully paid:		
At the beginning of the period / year	43,000,000	43,000,000
Issued during the period / year	-	-
At the end of the period / year	<u>43,000,000</u>	<u>43,000,000</u>

7. EMPLOYEES' END OF SERVICE BENEFITS

General description

The Group's policy provides for end of service benefits for all employees who complete the qualifying period of service in accordance with the Labor Law applied in the Kingdom of Saudi Arabia.

The annual provision is based on the actuarial valuations. The most recent actuarial valuation was performed by Alkharizmi Actuarial Services Company, an independent actuary, using the Projected Unit Credit Method as at 31 March 2018.

The movement in employees' end of service benefits during the period / year is as follows:

	31 March 2018 (Unaudited) SAR	31 December 2017 (Audited) SAR
At the beginning of the year	37,637,949	32,289,166
Charge for the period / year	1,233,656	4,435,178
Payments during the period / year	(1,513,279)	(3,751,554)
Actuarial (gain) / loss	(2,955,335)	4,656,768
Foreign exchange differences	5,324	8,391
At the end of the period / year	<u>34,408,315</u>	<u>37,637,949</u>

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7. EMPLOYEES' END OF SERVICE BENEFITS (continued)

	31 March 2018 (Unaudited)	31 December 2017 (Audited)
Principal actuarial assumptions		
Financial assumptions		
Discount rate	3.45% - 16.75%	2.95% - 18.75%
Long term salary increase	3.25% - 10.0%	3.25% - 10.0%
Demographic assumptions		
Rates for employees' turnover	Heavy	Heavy

All movements in the end of service benefits liability are recognized in interim condensed consolidated statement of profit or loss except for the actuarial loss which is recognized in interim condensed consolidated statement of comprehensive income.

8. SHORT-TERM BANK AND MURABAHA FACILITIES

	Notes	31 March 2018 (Unaudited) SAR	31 December 2017 (Audited) SAR
Murabaha facilities (Gold)	8.1	1,076,572,512	1,106,172,386
Commodity agreements	8.2	40,858,864	-
Cash facilities	8.3	10,000,000	-
Cash facilities (Tawaruq)	8.4	52,000,000	28,000,000
		1,179,431,376	1,134,172,386

- 8.1** The Group has Islamic Murabaha facilities to obtain gold from various banks to finance gold working capital requirements, with maturity periods ranging from 1 to 3 months (2017: 1 to 3 months) with agreed profit rates. All of these financial facilities are compliant with Shariah principles as the banks purchase a commodity other than gold or silver on behalf of the Company and then sells this commodity and uses the consideration to purchase gold for the Company.
- 8.2** Represents agreements to buy gold, at a certain fixed gold price, and sell it back at a future date, ranging from 1 to 12 months in 2018, at the same gold price plus agreed commission. The agreements are secured by cash margins.
- 8.3** Represents cash facilities obtained from a bank solely to finance working capital needs of the Group, having a maturity period ranging from 1 to 6 months.
- 8.4** Represents Islamic Murabaha cash facilities from various banks solely to finance working its capital requirements of the Group, with agreed profit rates and maturity periods ranging from 1 to 6 months.

9. ZAKAT AND INCOME TAXES

Zakat for the period

Zakat charge on the Group for the three months period ended 31 March 2018 amounted to SAR 3,044,203 (2017: SAR 4,447,548).

Income taxes related to foreign subsidiaries for the period

Income tax charges on subsidiaries for the three months period ended 31 March 2018 amounted to SAR 422,143 (2017: SAR 560,999).

Income tax pertains to ORO Egypt Company ("ORO") and L'azurde Company for Jewellery LLC ("LCJ Qatar") where tax has been accrued on their estimated taxable profit at 22.5% and 10% respectively.

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9. ZAKAT AND INCOME TAXES (continued)

Status of zakat assessments

The Company has filed the zakat returns and paid zakat for all the years up to 2016 and obtained respective zakat certificates. During March 2017, the Company received zakat assessments for the years 2005 to 2014 with additional zakat liability of approximately SAR 10.6 million. Under the Saudi Arabian Zakat regulations, the Company had the right to file an appeal against such assessments within 60 days from receiving the assessments and the Company has submitted an appeal against such assessments within the grace period. The management believes that current provision relating to zakat liability is adequate to cover any additional exposure that may arise as a result of these assessments.

Status of income tax assessments related to foreign subsidiaries

ORO, registered in Arab Republic of Egypt, was exempt from Corporate Income Tax until 31 December 2014 according to the Egyptian Law No. 8 of the year 1997. ORO received tax assessments and settled its tax liabilities on non-exempt activities till the year 2011. The years 2012 to 2014 are currently under inspection by the tax authorities in Egypt and no assessments has been issued for these years yet. ORO paid all taxes due on its non-exempt activities to date.

LCJ Egypt, registered in Arab Republic of Egypt, is exempt from income tax obligations on its commercial and manufacturing results for a period of ten years effective from 2008.

L'azurde Company for Jewellery LLC ("LCJ Qatar"), registered in the State of Qatar, filed its tax return for year 2016.

Lazurde Company for Jewelry LLC ("LCJ Dubai"), L'azurde Jewellery LLC ("LJ Abu Dhabi") and L'azurde Group for Gold and Jewellery DMCC ("L'azurde DMCC") registered in the United Arab Emirates, operate in a tax-free country, so no tax returns have been filed.

10. EARNINGS PER SHARE - BASIC AND DILUTED

	31 March 2018 (Unaudited)	31 March 2017 (Unaudited)
Net profit for the period (in SAR)	9,029,133	21,988,009
Weighted average number of ordinary shares during the period	43,000,000	43,000,000
Basic and diluted earnings per share (in SAR)	0.21	0.51

There is no dilution effect on the basic earnings per share of the Group as the Group has no convertible dilutive potential ordinary shares outstanding as at 31 March 2018 and 31 March 2017.

11. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties of the Group include shareholders, Board of Directors, key management personnel and entities of which they are principal owners.

The terms of the transactions with related parties are approved by the Group's management. Transactions with related parties are entered in the normal course of the Group's business. These balances are expected to be settled in the normal course of business. Pricing policies and terms of these transactions are at arm's length.

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11. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Transactions with related parties during the period and the balances as at end of the period/ year are as follows:

	<u>Nature of transactions</u>	<u>Amount of Transactions</u>		<u>Balances</u>	
		<u>31 March 2018 (Unaudited) SAR</u>	<u>31 March 2017 (Unaudited) SAR</u>	<u>31 March 2018 (Unaudited) SAR</u>	<u>31 December 2017 (Audited) SAR</u>
<u>Due to related parties</u>					
Other affiliates:					
Board of Directors and key management personnel	Remuneration	2,128,889	2,212,754	382,000	369,000
Director	Consultancy fees	125,625	125,625	125,625	125,625
		<u>2,254,514</u>	<u>2,338,379</u>	<u>507,625</u>	<u>494,625</u>

12. CONTINGENCIES AND COMMITMENTS

Contingencies

The Group issued letters of guarantees, which are Shariah compliant, amounting to SAR 3.5 million as at 31 March 2018 (31 December 2017: SAR 2.4 million) in relation to its operations.

Capital commitments

The Group has capital commitments in respect of capital expenditures amounting to SAR 2.3 million as at 31 March 2018 (31 December 2017: SAR 4.2 million).

Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases are as follows:

	<u>31 March 2018 (Unaudited) SAR</u>	<u>31 December 2017 (Audited) SAR</u>
Within one year	15,632,929	16,175,189
After one year but not more than five years	16,811,200	16,698,409
More than five years	3,599,417	3,572,738
	<u>36,043,546</u>	<u>36,446,336</u>

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13. SEGMENT REPORTING

The Group is organized into wholesale and retail business segments. These operating segments are monitored by the Group's chief operating decision maker. All the intra-group revenues and other balances are eliminated on consolidation. Details of the Group's segments are as follows:

<u>Three months ended 31 March 2018 (Unaudited)</u>	<u>Wholesale SAR</u>	<u>Retail SAR</u>	<u>Total SAR</u>
Revenues - Gold	439,604,152	-	439,604,152
- Operations	76,810,479	38,218,769	115,029,248
Gross profit	53,842,791	14,615,885	68,458,676
Property and equipment	64,368,896	12,931,585	77,300,481
Total assets	1,507,967,859	194,642,528	1,702,610,387
Total liabilities	(1,159,005,904)	(124,591,765)	(1,283,597,669)
	<u>Wholesale SAR</u>	<u>Retail SAR</u>	<u>Total SAR</u>
<u>Three months ended 31 March 2017 (Unaudited)</u>			
Revenues - Gold	482,781,938	-	482,781,938
- Operations	90,510,018	31,396,569	121,906,587
Gross profit	60,190,229	13,959,805	74,150,034
Property and equipment	59,588,477	10,043,371	69,631,848
Total assets	1,437,480,004	171,401,617	1,608,881,621
Total liabilities	(1,077,294,052)	(109,814,565)	(1,187,108,617)

14. FINANCIAL INSTRUMENTS

Fair value measurements of financial instruments

Assets and liabilities measured at fair value in the interim condensed consolidated statement of financial position are grouped into three levels of fair value hierarchies. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2:** inputs other than quoted prices included within 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 following table shows the fair value 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.

<u>31 March 2018 (Unaudited)</u>	<u>Fair Value (in SAR)</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Financial assets				
Accounts receivables	514,230,475	-	-	514,230,475
Financial liabilities				
Short-term bank and murabha facilities	1,117,431,376	-	-	1,117,431,376
<u>31 December 2017 (Audited)</u>				
Financial assets				
Accounts receivables	385,390,878	-	-	385,390,878
Financial liabilities				
Short-term bank and murabha facilities	1,106,172,386	-	-	1,106,172,386