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CORPORATE OVERVIEW

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CHAIRMAN AND CEO STATEMENT



L'azurde is in a strong position to continue its longer term growth ambitions.

WELCOME TO OUR FIRST ANNUAL REPORT AS A PUBLICALLY LISTED BUSINESS. THIS IS THE CULMINATION OF A LONG JOURNEY THAT HAS TRANSFORMED L'AZURDE INTO A BUSINESS THAT NOT ONLY REPRESENTS THE PINNACLE OF JEWELRY DESIGN, QUALITY AND INNOVATION, BUT THAT ALSO SETS A GOLD STANDARD FOR GOVERNANCE AND TRANSPARENCY FOR OUR SHAREHOLDERS, INVESTORS AND STAKEHOLDERS.



Mohammed Ebrahim Juma Al Shroogi Chairman



Selim ChidiacChief Executive Officer

 $60^{\circ}/_{\circ}$

Gross Profit Margin

17 Q0/

Net Income Margin

2016 has been a milestone year for L'azurde. The IPO of the L'azurde in June on the Saudi Arabia stock exchange was one of only three listings in the Kingdom in 2016. For the first time, a wide base of investors was able to own part of the largest gold and jewelry designer, manufacturer and distributor in the Middle East and the fourth largest gold manufacturer in the world.

The limited number of IPOs in 2016 was a reflection of the wider economic headwinds affecting our core markets in the GCC and Egypt. The sustained low oil price led to a significant drop in consumer spending and this, in tandem with the devaluation of the Egyptian Pound, had a negative impact on our business.

L'azurde reported operating revenues of SAR 405.4 million for the year ended 31st December 2016, a decline of 23.5% on last year. This resulted in a Net Income of SAR 72.1 million a decrease of 28.3% compared to 2015. Despite the challenging trading environment, the company managed to maintain its industry leading margin with gross profit margin of 60.2%, a testament to the proactive and timely decisions taken by the management team.

Over the course of the year we implemented a cost reduction and efficiency program that has brought in several savings to the business. Operating cost of revenues decreased by 15.3%, general and administration expenses decreased by 18.4% and selling and marketing expenses decreased by 2.3%. Other expenses/income includes a material one-off foreign exchange gain, as a result of the flotation of the Egyptian Pound in November 2016.

Total assets in 2016 amounted to SAR1.5 billion compared to SAR1.8 billion a year ago, a decrease of 12.9% mainly due to lower inventories as a result of lower revenues in the fiscal year. Net Working Capital, amounted to SAR 367 million a decrease of 18.2% mainly due to decrease in cash and inventory. Short-term loans amounted to SAR 1 billion compared to SAR 1.1 billion as at 31 December 2015, a decrease of 8.5% reflecting the company's efforts to reduce working capital and debt.

We announced that the transition plan to International Financial Reporting Standards (IFRS) is progressing well and we plan to release our first IFRS complaint financial statements within the applicable regulatory period for announcing first quarter 2017 financial results.

A clear path to growth

Throughout the year the company took proactive measures to counter macroeconomic challenges by implementing key strategic initiatives with the aim of securing future continuous growth in revenues and net profit. As part of this commitment, we introduced a selection of new product categories and lines. For the first time in the Middle East, L'azurde introduced a 14 karat gold jewelry range, offering consumers' unique designs at more affordable prices.

14 karat gold jewelry is popular all around the world and our collections have so far been well received in Egypt by both retailers and consumers. We plan to expand the 14k Gold jewelry concept to more markets in the near future. In addition, L'azurde started a new partnership with a leading producer of wedding bands from Turkey to manufacture in Egypt a new premium wedding bands line, which performed reasonably well.

CHAIRMAN AND CEO STATEMENT

1.5bn

Total assets (SAR)

72.1m

Net income (SAR)

We also began the expansion of the L'azurde retail network. With a low number but profitable base of retail shops, we see a great opportunity to expand this business. We are very selective as we focus on top shopping malls and locations. At the same time as we expand the store network, we also improve our product assortment. We recently announced that we are expanding the Retail division by signing five lease agreements for opening four new showrooms in KSA and one in Egypt in addition to signing and opening five outlets in major airports in KSA in collaboration with Saudi Catering Company.

Another new expansion will be the launch of the L'azurde Men Collection in our retail shops. The L'azurde Men Collection offers bracelets, rings, cufflinks, pens and wallets, to be sold exclusively at L'azurde retail shops. We will continuously look at other jewelry collections for our shops as well as potential new line extensions for L'azurde.

At the end of the year, we launched a second jewelry brand in retail in Saudi Arabia called Kenaz, a value jewelry brand offering a wide range of top diamond jewelry designs at more affordable prices. This is part of our vision to transform L'azurde into a multi-brand jewelry house supported by several brands targeting different consumer segments similar to international jewelry players. Kenaz is expanding well and we are now selling the products at several retail locations in KSA, with the plan to expand to more retail locations across several countries.

For the first time ever we took the franchise rights for Amazing Jewelry, an international franchise brand launched in Copenhagen, Denmark. We obtained the franchise rights for 25 years across nine markets including Saudi Arabia and Egypt.

This is a significant evolution of our business model where we leverage our capabilities to sell global franchise brands. Also, through Amazing Jewelry we are extending our product line into silver jewelry targeted at the fast-fashion youth segment. We plan to open four locations in Saudi Arabia and Egypt in the upcoming year.

Over the course of the year, we continued to leverage our technology and manufacturing capabilities to launch new fashionable and classic jewelry at lower weights across all markets to offer consumers more affordable price points. We are confident that those products will sell well in today's environment.

Finally we are also assessing inorganic expansion opportunities through acquisitions. These opportunities will be pursued on a selective basis and will fit our overall strategy.

Considering all the above initiatives and the underlying fundamentals supporting the jewelry industry in the long term, we believe that L'azurde is in a strong position to continue its longer term growth ambitions.

We thank our customers, shareholders and partners for choosing L'azurde over the past year. We look forward to delivering exceptional products and sustainable value for them again in 2017.

Mohammed Ebrahim Juma Al Shroogi

Chairman

Selim Chidiac

felin Chalir

CEO



ABOUT L'AZURDE

Founded in the Kingdom of Saudi Arabia (KSA) in 1992, L'azurde Company is the largest gold and jewelry designer, manufacturer and distributor in the Middle East and the fourth largest gold manufacturer in the world. L'azurde sells over one million pieces of jewelry every year in more than 52 countries globally. L'azurde has established itself as a household name across the MENA region due to its brand ambassadors, and aggressive marketing strategies. Through this, the company has distinctive, exceptional, elegant and intricate jewelry pieces.

L'azurde has over 2,500 employees and produces more than 5,000 different jewelry models every year in 21-karat, 18-karat and 14-karat gold and diamond jewelry. L'azurde's international design team uses the latest CAD/CAM technology to produce the most intricate jewelry designs. The pieces are manufactured at the company's factories in Saudi Arabia and Egypt, using advanced, high-tech equipment including 3D laser printing, and distributed to more than 2,200 retailers across the GCC and MENA region as well as exported to the USA and Europe.

Vision

L'azurde Group aims to become the most endearing, trusted and inspiring house of jewelry brands among other modern jewelry companies.

Mission

To lighten up the life of women with incomparable, elegant and innovative jewelry brands through the inspiration of L'azurde Group's dedicated and talented team supported by state of the art design, manufacturing and retail capabilities.

Strategy

L'azurde Group strives to become the leading designer, manufacturer, distributor and retailer of gold, diamond and fine fashion jewelry, in the Middle East North Africa region and other international markets in which the Group operates. In furtherance of this vision, L'azurde Group has adopted the following business strategy:

- Expand the gold jewelry wholesale business through design, innovation and improvements in the product lines, increase market share, particularly in the 18k segments, introduce new lines like the 14k offering greater value to consumers, strengthen the trade marketing programmes for strategic key accounts, build partnerships with international companies, strengthen L'azurde Group's presence across all GCC markets and develop new product lines for the Western markets;
- Expand the retail business by introducing new jewelry collections, L'azurde line extensions (Like L'azurde Men fashion line) and open new retail shops at top locations;
- Fully develop and expand the new diamonds jewelry value brand Kenaz across the region;
- Launch the new franchise brand Amazing Jewelry from Copenhagen, across several markets;

- Expand the diamonds jewellery wholesale business by launching new collections, allocating more resources and expanding the customer base;
- Develop technology and enhance manufacturing to come up with more creative designs and differentiate L'azurde Group's products in the market and to maintain cost efficiency and optimise manufacturing processes, and further improve working capital efficiency to make the business more strategic, targeted and efficient:
- Strengthen the brand image and expand the consumers' base using a holistic marketing strategy targeted across all key marketing media; and
- Enhance organisation capabilities using human resources development and improve corporate governance through better policies, control procedures and risk management.

K E Y MILESTONES

Company is established under the name of "the Saudi Gold & Pearl Factory Owned by Mr. Abdulaziz Saleh Al Othaim" in Riyadh

L'AZURDE

The "L'azurde" brand is launched in Jeddah

The first showroom outside the Kingdom is opened in Abu Dhabi, UAE.

OroEgypt Company is established by Mr Abdulaziz Al Othaim as L'azurde's first factory in Egypt

1992 1994 1995

1997

2003

2005

The "L'azurde" trademark is registered

Company name is changed to "L'azurde Gold & Jewelry Factory"

Contribute to establish The International Company for Jewellery Manufacturing in Egypt (currently known L'azurde Egypt for Jewellery LLC).





Changed the legal form to a closed joint stock company under the name "L'azurde Company for Jewelry" with a capital of SAR 200,000,000.

A consortium comprising Investcorp, Eastgate and The National Investor companies acquire an indirect interest of 77.5% in L'azurde Holding

The Qatar wholesale branch is launched

Opening more retail showrooms in the Kingdom of Saudi Arabia The capital of the company is increased to SAR 430 million by way of issuing 13 million new shares

Establish L'azurde Qatar LLC and wholesale office was launched in Qatar.

2006

2007

2009

2012

2015

2016

L'azurde Group acquires 100% ownership of OroEgypt

L'azurde Group signs an endorsement with Lebanese superstar Elissa

L'azurde's capital is increased from SAR 200 million to SAR 300 million through a capitalization from the company's retained earnings L'azurde retail shop was opened in Al Ain, UAE.

A second factory with a total capacity of 15 tons was established in Egypt under L'azurde Egypt for Jewellery LLC. (previously, International Company for Jewellery Manufacturing)



L'azurde completes its successful Initial Public Offering on June 29 and begins trading on the Saudi Stock Exchange (Tadawul)

14 karat Gold jewelry line is launched in Egypt, a first in the Middle East

Kenaz Jewelry – L'azurde's second jewelry brand is launched in Saudi Arabia providing diamond jewelry at affordable prices

L'azurde takes the franchise rights for 'Amazing Jewelry', an international franchise brand launched in Copenhagen, Denmark

PROFILE OF THE BOARD



Mr. Mohammed Ebrahim Juma Al Shroogi

Chairman

The chairman of L'azurde for jewelry since 12/5/2013

- He is the Co Chief Executive Officer of the global investment group, Investcorp
- Chairman of the board of Gulf Cooperation Council Board Directors institute, non-profit organization, focuses on raising awareness of the importance of promoting professionalism of the members of Boards of Directors and enhancing their efficiency in the region, since 2015;
- Co Chief Executive Officer, Investcorp Bank B. S. C., a Bahrain shareholding company, banking and financial services, since 2015;
- A director at the Crown Prince's International Scholarship Program, since 2000;
- A member at the board of trustees of Bahrain Center for studies and research, Bahraini research institute conducting special applied research on pension basis, consultancy services to private and public sectors, since 1995; and
- A director at the National US-Arab Chamber of Commerce aims at enhancing and supporting US-Arab work and economic cooperation, since 1995.

Academic and Professional Qualifications:

 Executive Program, Harvard University, Boston, Massachusetts, United States of America, 1989; and Bachelor in Commerce, Kuwait University, Kuwait City, Kuwait, 1970.



Mr. James Leonard Tanner

Non-executive Director

James Tanner joined L'azurde Company for jewelry in 20/2/2012 as a board member.

- Director at Arvento Mobile Systema closed joint stock company, a pioneering company in information technology, designing, developing, and selling its collection of devices and software applications products, since 2015;
- Member at the Board of Directors at Hydrasun Holding Group, a limited liability company, pioneering and specialized company in the field of providing integrated fluid transporting solutions, since 2014;
- Director at Al Yusr Industrial contracting company, a closed joint stock company, a pioneering company in the field of providing petrochemical industrial services, oil and gas sector, since 2013;
- Director at TİRYAKİ AGRO, a closed joint stock company, trading and supplying agricultural products, since 2011;
- A director at Gulf Cryo holding company, private company, a pioneering company in the field of producing industrial gas inthe Middle East, since 2011;
- Managing Director and Head of Corporate Investments in the Middle East and North Africa, Investcorp Bank, a Bahraini joint stock company, banking and financial services, since 2010;
- Director, Investcorp Saudi Arabia Financial Investments Company "ISAFIC", private company, investment banking services, subsidiary of Bahrain Investcorp Bank, since January 2010;
- Director, Oro Egypt for Manufacturing Precious Metals, joint stock company, since 2010; and
- Director, Orka Holding Company, closed joint stock company, pioneering company in men's wear retail in Turkey, Since 2012.
- Director, NDT Corrosion Control Services Company, a closed joint stock company, the largest testing services company for the industrial sector in Saudi Arabia since April 2016

Academic and Professional Qualifications:

- Master of Business Administration, Finance from Indiana University, Bloomington, Indiana, United States of America, 1983
- Bachelor of Science in Economics and Finance, Indiana University, Bloomington, Indiana, United States of America. 1982.



Mr. Brian Norman Dickie

Non-executive Director

Brian Dickie Joined L'azurde Company for jewelry in 15/10/2015 as a board member.

- Hydrason Board of Managers Chairman, a UK limited liability company, distributing and manufacturing hydraulic machines and devices and related products for international oil industry below sea surface, since 2013;
- A director (non-executive), Sistema Finance, Luxembourg, the European Subsidiary of Sistema JSFC, a joint stock company listed in Moscow and London, since 2016;
- Senior Advisor, Investcorp International Ltd., a limited company, investments in European private equity, UK, specialised in banking and financial services, since 2003, and Senior Advisor , Redline Capital, a venture capital fund based in Luxembourg.

Academic and Professional Qualifications:

- Master of Business Administration, Harvard University, Boston, Massachusetts, United States of America, 1978;
- Master of Arts in English Language and Literature, Oxford University, Oxford, England, 1976.



Mr. Abdullah Abdulaziz Saleh Al Othaim

Non-executive Director

Joined L'azurde Company for jewelry in 5/9/2013 as a board member.

- Director Strategic Planning, Abdulaziz Al Othaim & Sons Holding Company, a limited liability company, investments, since 2012;
- · Board Member at Thaat Holding Company,
- Member of the Business Youth Council at Riyadh Chamber of Commerce and Industry.

Academic and Professional Qualifications:

 Bachelor in Finance, Suffolk University, Boston, Massachusetts, United States of America, 2010.



Mr. Wassim Mohammad Assem Al Khatib

Non-executive Director

Joined L'azurde Company for jewelry in 15/10/2015 as a non-executive board member. He is also a member of the audit and remuneration committees.

- Managing Director, Head of Investment Banking - NCB Capital Company, a Saudi joint stock company, specialized in financial services, since 2015;
- Director, HC Securities and Investment, Egypt, a joint stock company, specialized in financial services, since 2015; and
- Founding Partner and Director, IC Center Dental Professionals, a limited liability company, Saudi Arabia, specialized in healthcare, since 2010.

Academic and Professional Qualifications:

- Executive Education, Harvard Business School, USA, 2016
- BSc in Engineering, The Pennsylvania State University, USA, 2004.



Mr. Hani Ibrahim Ahmed Obaid

Non-executive Director

Joined L'azurde Company for jewelry in 24/4/2013 as a board member.

- Joined Investcorp as a senior partner in 2012 from Morgan Stanley where he was a vice President in Wealth Management for 5 years. Prior to that Hani worked at Banque Saudi Fransi Asset Management for 6 years.
- Principal, Investcorp Bank B.S.C., a Bahrain shareholding company, banking and financial services, since 2012
- Member of the Board of Saudi Fransi Capital Funds, private equity fund, since 2015.

Academic and Professional Qualifications:

 Bachelor in Management of Technology, Wentworth Institute of Technology, Boston, Massachusetts, United States of America, 2002.

PROFILE OF THE BOARD



Mr. Abdul Kareem Assad Abu Alnasr Independent Director

Joined L'azurde Company for jewelry in 01/03/2016 as a board member.

- Director of Yanbu National Petrochemical Company (Yansab), a Saudi Joint Stock Company operating in manufacturing of petrochemical products, since March 2013;
- Director of Abdul Latif Jameel United Finance Company, a Closed Joint Stock Company specialised in providing auto financing as per Finance Lease Law, since April 2015;
- Director of Saudia Aerospace Engineering Industries (SAEI), a Closed Joint Stock Company operating in engineering and manufacturing of planes since March 2014;

Academic and Professional Qualifications:

- Master of Business Administration American University - Cairo, Egypt (1989); and
- Bachelor of Business Administration California State University, California, Egypt (1985)



Mr. Amin Mohamed Akef Al-Maghrabi Independent Director

Joined L'azurde Company for jewelry since 01/03/2016 as a board member.

- President and CEO of Magrabi Retail Company, a Limited Liability Company operating in eyewear retail categories since 2006;
- Director of Magrabi Hospitals & Centers, a Limited Liability Company operating in medical care since January 2008;
- Director of Al Amin Medical Instruments Co. (AMICO Group), a Limited Liability Company operating in medical equipment and healthcare products distribution, since January 2010; and
- Director of Magrabi Charity Association since January 2013.

Academic and Professional Qualifications:

• B.A. in Economics and Political Science, University of Richmond, London, UK, 1996.



Mrs. Sabah Khalil Almouyyed

Independent Director

Mrs. Sabah Almouyyed Joined L'azurde Company for jewelry in 22 /11/2016, as a board member.

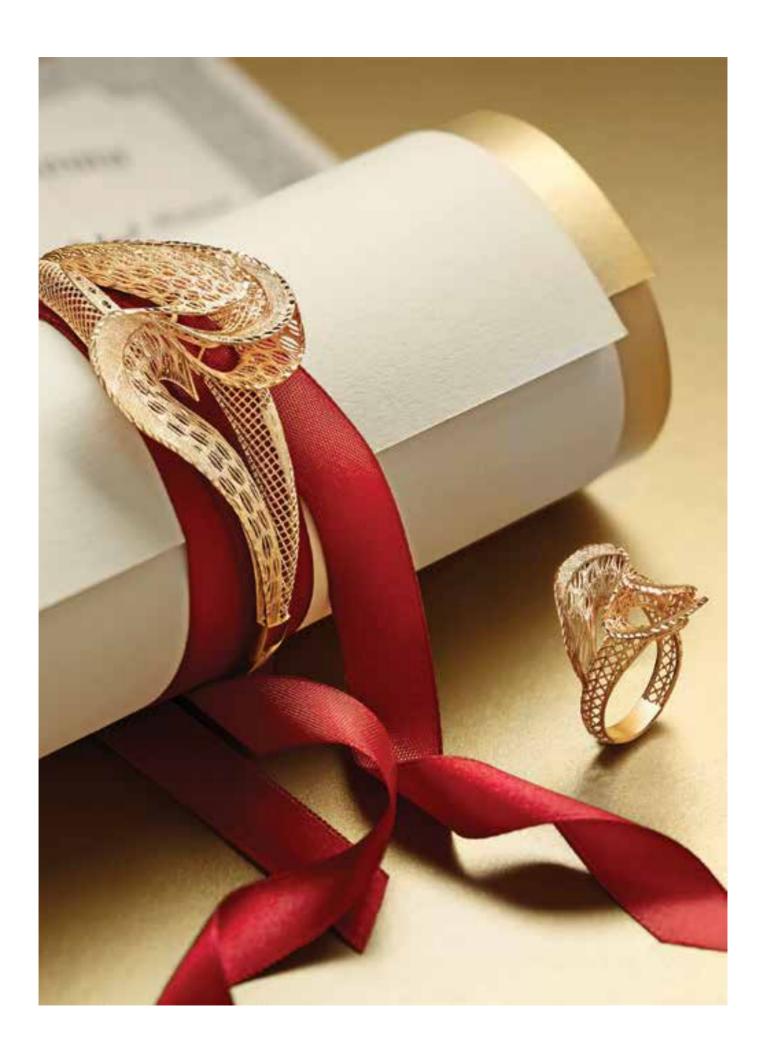
- Managing Partner, Intellect Resources Management W.L.L, Consultancy Management, Training, September 2013.
- Member of the Board of Directors, Bahrain Development Bank, development financial institutions, since March 2016.
- Member of the Board of Directors, EBDAA Bank, Micro – financing Bank, since 2015.
- Member of the Board of Trustee of the Council for Higher Education, Kingdom of Bahrain, since 2012.

Academic and Professional Qualifications:

- Advanced Management Program (AMP), Wharton Business School, 1999.
- Executive Leadership Program, Darden College, University of Virginia, 2001.
- MBA, Kelastat Business School, University of DePaul, 2005.
- Bachelors, Economics and Business Administration, American University of Beirut, Lebanon, 1975.

Board of Directors accepted on Wednesday February 22nd 2017, the recommendation of the Nominations and Remuneration Committee to appoint Mr. Rabih Khouri as a temporary non-executive Board Member and nominate him to be member of the Audit Committee. This appointment effective from February 22nd 2017 will be final upon the approval at the first Ordinary General Assembly meeting planned to take place in April 2017. At the same time, the Board of Directors issued its acceptance of the resignation letter dated February 1st, 2017 of Mr. Hani Ibrahim Ahmed Obeid (a non-executive Director) from the Board for personal reasons. The resignation is effective as of the Board acceptance on February 22nd 2017.

Mr. Rabih Khouri is currently a Managing Director, Corporate Investment MENA at Investcorp, a listed company in Bahrain. Rabih works in financial and banking services since 2007 and is a Board member at several companies such as Theeb Rent Cars Company and Leejam Company operating the sports clubs under the Fitness Time brand. Rabih has more than 15 years in leading managerial positions at global banks and financial institutions. He holds an MBA from Cambridge University and a Masters in engineering from Ecole Centrale Paris.



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STRATEGIC BUSINESS REVIEW

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L'AZURDE PRINCIPAL BUSINESS ACTIVITIES





L'azurde Group's principal activities consist of the following three key operational segments:

- Manufacturing and production segment: primarily consisting of the design and production of gold and diamond jewelry with precious and semi-precious stones;
- Wholesale segment: primarily consisting of the wholesale to more than 2,200 third party independent retailers of gold and diamond jewelry in the MENA region; and
- Retail segment: primarily consisting of the selling of diamond and fashion jewelry across L'azurde mono-brand retail shops, Kenaz retail locations and Amazing mono-brand shops.

L'azurde Group's core wholesale business model consists of distributing and selling gold jewelry by weight to a large network of more than 2,200 third party retailers across the MENA region. L'azurde Group borrows gold from financial institutions through full shariah compliance facilities and sells gold jewelry by weight where it requires retailers to reimburse in the form of physical weight of gold sold, in addition to the labour service charge in SAR, or the relevant currency. As part of its strategy in managing price volatility risks, and instead of buying gold and being exposed to the gold price fluctuations, L'azurde Group borrows its entire gold needs from banks with different terms. This ensures that its gold assets, represented in accounts receivables and inventory, always equal its liabilities of gold loans at all times.

DISTRIBUTING AND SELLING GOLD JEWELRY TO A LARGE NETWORK OF MORE THAN 2,200 THIRD PARTY RETAILERS ACROSS THE MENA REGION.



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STRATEGIC BUSINESS REVIEW

BUSINESS DESCRIPTION

Industry Value Chain

(a) Sourcing

Gold in the Kingdom is primarily sourced from three channels:

- Banks and commodity traders: Banks represent the main source of gold for gold manufacturers. Gold sourced from banks and commodity traders in the form of ingots or gold bars is melted to be used in the production process.
- Gold mines: Ma'aden is the dominant gold mining company in the Kingdom with mining operations spread out across the Kingdom. Ma'aden's production levels in 2016 reached 7 tons.
- Ore processing and scrap recovery: Ore processing is mainly conducted by Ma'aden mining company. Scrap gold supply increases when gold prices surge, mainly because consumers look to make a profit from selling at higher prices.

Diamonds are imported from multiple sources including Belgium, India and South Africa. Typically, imported diamonds can be rough or polished. Rough diamonds are purchased by either long term contracts, or in auctions, or in spot sales (based on a one time contract). Polished diamonds are mostly sold at industry exhibitions.

(b) Design and Fabrication

• **Design:** Jewelry designs vary from one region to another, as tastes differ according to both geographic location as well as motives for purchase. In rural and more traditional areas, consumers prefer 21k jewelry with old fashioned designs. Urban consumers, on the other hand, are demanding more trendy and fashionable lower weight jewelry (18k and 14k).

- **Fabrication:** In the gold and diamond jewelry industry, three major manufacturing techniques are typically adopted:
- **Pressing:** The use of motorised or hand operated machinery, specially designed for minting gold and silver using hydraulic force. The designs are usually basic, cheap and fast to manufacture.
- Casting: The process of creating a model pattern in wax that will then be used to hold hot metal (gold, silver etc.) to shape it into uniform items based on the model. It offers higher quality than pressing and can produce high volumes from the same mould.
- Other advanced techniques such as 3D printing and Micro Setting: 3D printing is the process of making jewelry using a three dimensional digital model. Micro setting is a technique revolving around setting small diamonds of a uniform size in interlocked rows using high magnification. These techniques enable manufacturers to maintain tight control over the gold content of the jewelry pieces and to increase their labour service charge due to the exclusivity of the designs.

Gold and diamond jewelry in the Kingdom is fabricated either in small local workshops or in relatively large manufacturing facilities. The first rely on basic manufacturing techniques such as pressing and casting, while the latter utilise more advanced technologies (e.g. micro setting, laser cutting, 3D printing) that enable manufacturers to produce higher volumes at lower cost.





APPLYING 3D PRINTING
TECHNOLOGY IN
MANUFACTURING,
ENABLING INTRICATE,
DIFFERENTIATED
DESIGNS IN HIGH
QUANTITIES AND AT
LOWER COST

BUSINESS DESCRIPTION

(c) Wholesale and Distribution

Several different wholesaler roles are currently present in the key jewelry markets.

- Pure wholesaler: Primarily work with retailers that do not have direct contact with the manufacturers. These manufacturers can either be based in the Kingdom or foreign (mainly in Far East Asia). Moreover, retailers prefer to work with wholesalers, since the latter can offer discounts and accept credit payments (rather than cash).
- Fully integrated manufacturer and retailer: Manufacturers with established vertical integration and a private retail network. The aforementioned retail outlets exclusively hold items produced by the managing manufacturer. Wholesalers in this category do not compete with wholesalers in other configurations as they are not targeting the general jewelry retail market.
- Manufacturer/wholesaler: Manufacturers operating and managing their own private wholesale channels. This configuration allows for higher profit margins since gold jewelry retail outlets can drive down the overall profitability of the manufacturer. Manufacturers in this role focus on expanding their capacity to supply the wide network of independent jewelry retailers across the Kingdom.

(d) Retail

Retail activity in the Kingdom can be found across:

- Gold souks: Bazaar like marketplaces that have a high density of shops that sell both low and high-end jewelry. This is the most common retail destination in the Kingdom for gold jewelry by weight.
- High streets: Stand alone shops located on high streets in city centres. These retailers primarily sell diamond jewelry by piece, as retail operations require higher margins.
- **Shopping malls:** Stores in malls selling jewelry items that are more commonly sold by piece rather than by weight.

Retail gold customers are typically segmented into four categories:

- Occasion driven consumption: Primarily driven by social events such as weddings, births and anniversaries. It is highly seasonal, peaking in Q2, and not affected by differences in social class.
- Fashion driven consumption: Driven by increasing urbanisation and the rising disposable income of the younger population. Purchases are typically made by young female consumers for daily use for attending social events. This segment is relatively more sensitive to gold price fluctuations.

- Savings driven consumption: Typically considers gold purchases, especially 21k gold, as storage of wealth. In the Kingdom, gold jewelry is traditionally considered to preserve women's wealth after marriage and is used as a money proxy in times of hardship or high inflation.
- Investment-driven consumption: Typically in the form of coins and bars of 24k gold. Gold is used as a hedge against volatility during times of economic, political and social uncertainty.





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STRATEGIC BUSINESS REVIEW

BUSINESS MODEL

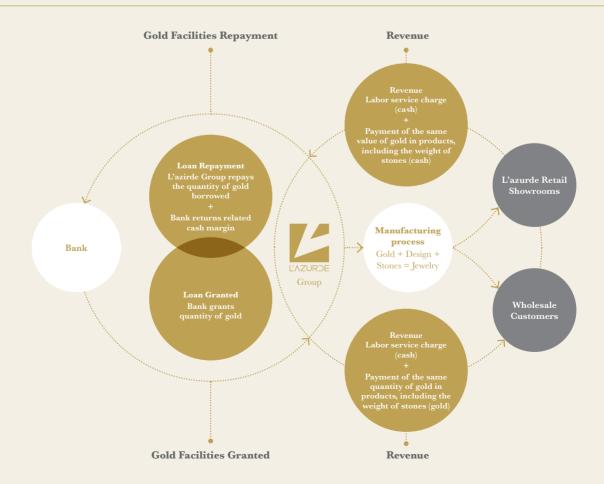
The core business model of L'azurde Group consists of designing and manufacturing gold and diamond jewelry; marketing and selling of such to wholesale clients and through its own network of retail showrooms; and distributing jewelry manufacturing equipment. Although L'azurde Group works in manufacturing gold and diamond jewelry and precious and semi-precious stones, in addition to distribution of jewelry manufacturing equipment, activities related to gold jewelry is its core business that utilises most of its resources and generates most of its revenues.

Diamond jewelry, precious and semi-precious stones, and the distribution of jewelry manufacturing equipment, however, are smaller in proportion compared to their activity related to gold jewelry, since they are new and still under development.

L'azurde Group conducts the above-mentioned operations related to manufacturing gold jewelry through a business model for gold operations which is developed, adopted and implemented so it could be a central and core element of its competitive edge.

Such a model comprises of an operational cycle that consists of three main stages with an added value for each. The first stage includes the untraditional supply of gold, the second stage includes manufacturing gold jewelry, and the third stage includes the distribution of final products. The following is a detailed explanation of the gold operations' business model:

Gold Wholesale Business Model of L'azurde Group



BUSINESS MODEL

L'azurde Group maintains a balanced and diversified wholesale customers base and generates revenue through sales from L'azurde Group's retail shop end consumers.

To expand its business and grow its revenues L'azurde Group is expanding its retail business with its own L'azurde branded retail shops. The L'azurde mono-brand retail business is different to the gold jewelry wholesale business as the Group focuses in its own L'azurde retail shops on diamond jewelry sold by piece. In addition, most L'azurde branded retail shops are located in shopping malls while the majority of gold wholesale customers are located in gold souks.

To further grow its revenues, L'azurde Group identified an opportunity to launch a diamonds jewelry value brand under a sub brand called 'Kenaz'. While L'azurde is a premium high quality brand, Kenaz is a value brand targeted at daily wear occasions and gifting.

On top of that, L'azurde acquired the Amazing jewelry brand franchise for KSA, Egypt and 7 other countries in the MENA region for a period of 25 years. This new franchise from Copenhagen provides new sources of revenues for the L'azurde Group and diversifies its revenues by expanding its retail operations and targeting new segment, of consumers.

The Company's Competitive Advantages

There are a number of factors that give L'azurde Group an advantage over existing and potential competitors, provide a platform for sustainable and profitable growth and achieve added value to the Shareholders. These include:

- A) L'azurde Group's resilient business model and advanced technologies used in operations and marketing allow the Group to be relatively immune to fluctuations and volatility in gold prices. Such model, coupled with the Group's technology and manufacturing capabilities, strong brand and design capabilities, allow it to protect its market share in case of volatile gold prices. During periods of high gold prices, L'azurde Group has the technology and craftsmanship capabilities to produce jewelry at lower weight and hence meet the right consumer price points. In addition, L'azurde Group has very low gold loss in the manufacturing process, which puts limited financial pressure at high gold prices. As part of its commodity price risk management strategy, and instead of buying gold and being exposed to the gold price fluctuation, L'azurde Group borrows its entire gold needs directly from banks while matching at all times its gold assets with its gold loans, thus mitigating the risk of gold price fluctuation. Although L'azurde Group intends to continue using gold loan agreements to mitigate its exposure to gold price fluctuations. This resilient business model has enabled L'azurde Group to continuously increase its revenues and profitability over the years.
- B) L'azurde Group has marketed its brand to be amongst the leading brands in the MENA region. This was achieved through major TV, print and on-line advertising campaigns, as well as using some celebrities as brand ambassadors, such as Elissa and the singer Balqees. L'azurde Group also markets its brand online and on social media.
- C) L'azurde Group has solid retail capabilities with its multi brand and multi store formats across its portfolio of brands: L'azurde, Kenaz and Amazing jewelry. The Group succeeds in acquiring and fully developing retail shops across a wide network of Malls and street locations. The Group plans to expand and retail more jewelry brands to fully leverage its capabilities and offer different consumers an attractive wide offering of brands and products.
- D) L'azurde Group's manufacturing facilities enable it to efficiently design and produce a wide variety of unique products to meet the evolving demands of consumers. L'azurde Group introduces over 5,000 designs per year, maintaining its status as a leading trend setter in the market. Also, L'azurde Group maintains a significant technological advantage with an investment in more than 500 advanced jewelry manufacturing machines.



Competitive Advantages

5,000

New designs per annum

- E) Through its successful operational and financial performance, brand identity and operational and advertising initiatives, L'azurde Group has achieved a competitive position in the industry in the MENA region. The market share of L'azurde Group grew consistently during the past year to reach 20%–25% in the Kingdom and Egypt, making it the leading provider of wholesale jewelry.
- F) L'azurde Group's senior management team is comprised of experienced executives with a long track record of financial and operational success, and a thorough knowledge and understanding of every facet of manufacturing, marketing and retailing gold and diamond Jewelry. With wide experience in manufacturing gold and diamond Jewelry, consumer marketing, retailing and financing, the senior management is able to work efficiently as a team to identify, evaluate and execute L'azurde Group's expansion plans and growth initiatives.

Resilient Business Model and Financial Performance

L'azurde Group's resilient business model and advanced technologies in manufacturing allow it to be relatively immune to fluctuations in gold prices throughout the manufacturing and sales process. Such sourcing model, coupled with its manufacturing and technology capabilities, strong brand and design capabilities, allow it to protect its market share in case of volatile gold prices.

Despite gold price volatility, L'azurde Group was able to sustain its leading market position while securing a steady stream of revenues and profitability as it has been able to adapt to changing market conditions using innovative designs, a large variety of manufacturing techniques, a strong brand and a large distribution and sales organisation. During high gold price periods, L'azurde Group has the technology and craftsmanship capabilities to produce jewelry at lower weight and hence meet the right consumer price points during periods of high gold prices. Most small manufacturers have basic manufacturing techniques which do not allow them to produce high volume with low weight jewelry. In addition, L'azurde Group has very low gold loss in the manufacturing process, which puts limited financial pressure at high gold prices. Competitors with no similar capabilities are under financial pressure during a period of high gold price.

During periods of low gold prices, previously dormant players are able to restore some of their capacity, though high capital requirements and Saudization challenges make scalability increasingly difficult and as a result limit their ability to increase market share. On the other hand, the low gold price helps to increase the overall market size allowing L'azurde Group to compensate any loss of market share due to more competition from small players.

In all cases and at any gold price point, L'azurde Group maintains no position in gold by ensuring that its gold assets, represented in accounts receivables and inventories, always equal its liabilities of gold borrowed from lenders. Many other competitors have limited financial capabilities and creditworthiness to borrow gold from banks, thus forced to buy gold from the open market at the spot rate and accordingly their gold assets are exposed to gold price fluctuation. For precious and semi-precious stones, L'azurde Group buys them directly from the external market at the market price.

Consumer Marketing

L'azurde Group has established itself as a leading brand in the MENA region through a sustained focus on advertising and marketing spend. The Group continued its marketing efforts throughout 2016, leveraging its brand celebrity Elissa with a new multi-celebrity TVC. The launch campaign was supported by heavy print presence in all the leading lifestyle magazines across the GCC. The second half of the year witnessed a focus on digital and social media advertising and the support of our diamond 'Dream Collection' designed by Lady Fozaza. A new star celebrity, Balgees Fathi, signed at the end of the year with L'azurde to lead the new collection campaign for 2017. L'azurde remains to be one of the category's top media spenders and its campaigns and collaborations with celebrities create a competitive advantage for L'azurde Group against its market competitors.

The introduction of the Kenaz brand into the retail world has been supported by on the ground activities as well as the building of its social media platforms. In our efforts to build the brand awareness and reach our target audience multiple influencer collaborations and social media promotions have been developed.

BUSINESS MODEL

Advanced Design and Manufacturing Facilities

L'azurde Group's manufacturing facilities enable it to efficiently design and produce a wide variety of unique products to meet the evolving demands of consumers. L'azurde Group introduces over 5,000 designs per year, enabling it to maintain its status as an influential trend setter in the market. L'azurde Group maintains a significant technological advantage with an investment in more than 500 advanced jewelry manufacturing machines. For example, L'azurde Group was the first manufacturer in the Kingdom to implement 3D printing as part of the design and manufacturing process. Furthermore, L'azurde Group's efficient management of the supply chain provides it with the flexibility to change designs. Finally, L'azurde Group has streamlined labour intensive pieces to drive the efficiency of its production process. These advantages enable L'azurde Group to charge a premium labour service charge, meet a wide variety of consumer tastes and create distinguished pieces of jewelry.

Manufacturing Facilities and Capacity

L'azurde Group operates more than 32,000 sam of manufacturing space for gold and diamond jewelry. The factory in the Kingdom, located in Riyadh, employing 1094 craftsmen as at December 2016 and established in 18/7/1412H (corresponding to 23/1/1992G), manufactures products sold in both the Kingdom and international markets, whereas the two factories in Egypt, one located in Cairo, employing 63 craftsman as at December 2016, and established in 5/11/1423H (corresponding to 8/1/2003G), the second located in Qalyubia, employing 671 craftsmen at December 2016, and acquired in 11/9/1433H (corresponding to 30/7/2012G), manufacture products mainly for sale in the local Egyptian market. L'azurde Group employs over 2,000 experienced gold and diamond jewelry craftsmen.

Leadership Position

Through its successful operational and financial performance, brand identity and operational and advertising initiatives, L'azurde Group has achieved a competitive position in the industry in the MENA region. The market share of L'azurde Group grew consistently during the past years to reach 20% – 25% today in both the Kingdom and Egypt, making it the leading provider of wholesale jewelry. L'azurde Group works continuously on implementing new products initiatives, new collections and innovative technologies to continue winning more consumers and expanding its market share.

Geographic Locations and Operations

L'azurde Group's head office is located in the city of Riyadh, Kingdom of Saudi Arabia. As at 31 December 2016, L'azurde Group operated directly in 18 wholesale offices within the Kingdom and in the United Arab Emirates, Qatar, and Egypt, with three manufacturing units (one in the Kingdom and two in Egypt), 16 retail showrooms and 8 kiosks (located across the Kingdom, UAE and Egypt). In addition, L'azurde Group sells its products in 52 countries through a network of exclusive and non exclusive distributors, wholesalers and third retailers. The table below lists the locations in which L'azurde Group operated as at 31 December 2016:

Details of L'azurde Group's Geographical Presence as at 31 December 2016G

Country	City	Operating Company	Nature of Presence
Kingdom of Saudi Arabia	Riyadh	The Company	Headquarters, factory, wholesale offices and retail shops
Egypt	Cairo	Oro Egypt	Factory and wholesale offices
	Cairo	L'azurde Egypt LLC	Factory, wholesale offices and retail shops
UAE	Dubai	L'azurde Dubai	Trading and wholesale offices and retail shops
	Abu Dhabi	L'azurde Abu Dhabi	Trading, wholesale office
Qatar	Doha	L'azurde Qatar	Wholesale office



KENXZ

WE HAVE BEEN VERY PROACTIVE AND FAST AT LAUNCHING NEW STRATEGIES AND INITIATIVES TO GROW OUR TOP LINE

Growth opportunities and future plans

L'azurde Group is undertaking various strategic initiatives with the aim of securing future continuous growth in revenues and net profit. The main growth initiatives for L'azurde Group consist of: (i) growing its product lines by launching new categories, collections and continuing to drive premium pricing through innovation; (ii) expanding its retail business through opening new shops for L'azurde, Kenaz, Amazing jewelry and other brands in the future (iii) developing its wholesale diamonds business, (iv) considering mergers and acquisitions and (v) expanding its geographical presence.

We are very committed to growing the Company, the same way we did that since 2010. We have been very proactive and fast at launching new strategies and initiatives to grow our top line. Here are the strategic growth drivers for the company:

- 1. We will expand the wholesale Gold jewelry business with new products lines like 14k, 18k, wedding bands and others. For the first time in the Middle East, L'azurde introduced 14 karat Gold jewelry lines offering consumers unique designs at more affordable prices. The 14 karat gold jewelry is popular all around the world. The collections have so far been well received in Egypt by both retailers and consumers. We plan to expand 14k Gold jewelry to more markets. L'azurde also started a new partnership with a leading Wedding Bands producer from Turkey to manufacture in Egypt a new premium wedding brands line.
- 2. We are expanding the L'azurde retail network. We still have a low base of retail shops and we see a great opportunity to expand this business. We are very selective as we focus on top malls and top locations. At the same time as we expand the network, we also improve our products assortment. For the first time, we will be launching the L'azurde Men Collection in our retail shops.

The L'azurde Men Collection offers Bracelets, Rings, Cufflinks, Pens and Wallets, sold now exclusively at the L'azurde retail shops. We will continuously look at other jewelry collections for our shops as well as potential new line extensions for L'azurde.

- 3. We launched a second jewelry brand in Saudi Arabia called Kenaz, a value jewelry brand offering a wide range of top diamond jewelry designs at more affordable prices. This is part of our vision to make the L'azurde Group a multi-brand house with several brands with different positioning targeting different consumers, similarly to international jewelry players. Kenaz is expanding well and we are now selling the products at several retail locations in KSA, with the plan to expand to more retail locations across several countries.
- 4. For the first time ever we took the franchise rights for Amazing Jewelry, an international franchise brand launched in Copenhagen, Denmark. We obtained the rights for 25 years across 9 markets including KSA and Egypt. This is a significant evolution of our business model where we leverage our capabilities to sell global franchise brands. We will start with 4 locations in KSA, Egypt and then expand as appropriate.
- 5. We leverage our technology and manufacturing capabilities to launch new fashionable and classic jewelry at lower weights across all markets to offer consumers more affordable price points. We are confident that those products will sell well in today's environment.
- Finally we are considering for the first time some potential Mergers & Acquisitions.
 We mapped the market and we are now considering various potential targets.

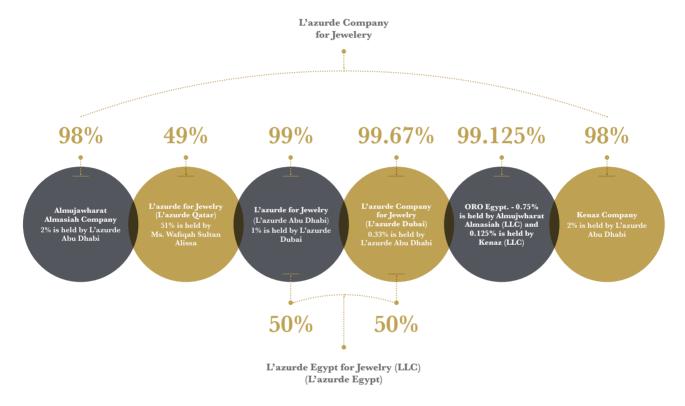
Considering all the above initiatives and the underlying fundamentals supporting the jewelry industry in the long term, we believe that L'azurde is in a strong position continue its longer term growth ambitions.

OWNERSHIP STRUCTURE



L'azurde Group Structure and Subsidiaries

The Company holds ownership interests in seven direct and indirect Subsidiaries, both domestic and foreign. The following chart reflects the current structure of L'azurde Group:



Overview of Subsidiaries

L'azurde operates its business through a variety of subsidiaries. The Company maintains long term investments and exerts effective control through its full capacity to lead and direct economic performance, financial policies and operational processes. L'azurde consolidates its financial operations and results as one business unit issuing Consolidated Financial Statements at Group level after the elimination of all significant inter group balances and transactions.



OWNERSHIP STRUCTURE

The following table sets out the Consolidated subsidiaries Companies' names, capital, ownership interest, business activities, country of incorporation and country of operation. Note that there are no shares or debt instruments issued to any of these entities.

Name of Subsidiary	*		Country of	Ownership			
	SAR	Activities	Incorporation and operation	2016		2015	
	0,000		and operation	Direct Interest (%)	Indirect Interest (%)	Direct Interest (%)	Indirect Interest (%)
Almujawharat Almasiah Company	50	Retail shops	Saudi Arabia	98%	2%	98%	2%
Kenaz Company	50	Retail shops l	Saudi Arabia	98%	2%	98%	2%
L'azurde Company for Jewelry	306	Wholesale offices and retail shops	United Arab Emirates, Dubai	99.67%	0.33%	99.67%	0.33%
L'azurde Egypt for Jewelry	44,206	Factory and retail shops	Egypt		100%		100%
L'azurde for Jewelry	306	Wholesale offices and retail shops	United Arab Emirates, Abu Dhabi	99%	1%	99%	1%
L'azurde for Jewelry	206	Wholesale offices and retail shops	Qatar	49%		49%	
Oro Egypt Company for Manufacturing Precious Metals	19,260	Factory, wholesale offices and retail shops	Egypt	99.125%	0.875%	99.125%	0.875%

Almujawharat Almasiah Company

Almujawharat Almasiah Company ("Almujawharat Almasiah") is a limited liability company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration No. 1010236734 dated 25/7/1428H (corresponding to 8/8/2007G). The head office of Almujawharat Almasiah is located in Taiba Mall, King Fahad District, P.O. Box 41270, Riyadh 11521, Kingdom of Saudi Arabia. The current capital of Almujawharat Almasiah is SAR 50,000, divided into 50 shares with a fully paid nominal value of SAR 1,000 per share. The following table summarises the ownership structure of Almujawharat Almasiah as at 31 December 2016:

Shareholders	No. of Shares	Nominal Value per Share (SAR)	Value of Shares (SAR)	Ownership Percentage
L'azurde Company for Jewelry	49	1,000	49,000	98%
L'azurde Company for Jewelry LLC ¹	1	1,000	1,000	2%
Total	50	1,000	50,000	100%

^{1.} L'azurde Company for Jewelry is a limited liability company incorporated in Abu Dhabi, United Arab Emirates.

The principal activities of Almujawharat Almasiah include the wholesale and retail trading in metals and accessories. Almujawharat Almasiah was established primarily for the purpose of holding shares in certain Subsidiaries and does not exercise any trading activities as at December 31, 2016.

Kenaz Company

Kenaz Company ("Kenaz") is a limited liability company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration No. 010352574 dated 21/11/1433H (corresponding to 7/10/2012G). The head office of Kenaz is located in Second Industrial Area, P.O. Box 41270, Riyadh 11521, Kingdom of Saudi Arabia. The current capital of Kenaz is SAR 50,000, divided into 50 shares with a fully paid nominal value of SAR 1,000 per share. The following table summarises the ownership structure of Kenaz as at 31 December 2016:

Shareholders	No. of Shares	Nominal Value per Share (SAR)	Value of Shares (SAR)	Ownership Percentage
L'azurde Company for Jewelry	49	1,000	49,000	98%
L'azurde Company for Jewelry LLC ¹	1	1,000	1,000	2%
Total	50	1,000	50,000	100%

^{1.} L'azurde Company for Jewelry is a limited liability company incorporated in Abu Dhabi, United Arab Emirates.

The principal activities of Kenaz include the wholesale and retail trading in, and the export and import of, sunglasses, watches, accessories, pens, perfumes and leather products.

L'azurde Company for Jewelry (Dubai)

L'azurde Company for Jewelry (**"L'azurde Dubai"**) is a limited liability company registered in Dubai, United Arab Emirates under commercial registration No. 1039193 dated 23/12/2008 (corresponding to 25/12/1429H). The head office of L'azurde Dubai is located in Al Ras District, P.O. Box 60843, Dubai, United Arab Emirates. The current capital of L'azurde Dubai is AED 300,000 (equivalent to SAR 306,371), divided into 300 shares with a fully paid nominal value of AED 1,000 (equivalent to SAR 1,021) per share. The following table summarises the ownership structure of L'azurde Dubai as at 31 December 2016:

Shareholders	No. of Shares	Nominal Value per Share (AED)	Value of Shares (AED)	Value of Shares (SAR)	Ownership Percentage
L'azurde Company for Jewelry	299	1,000	299,000	305,350	99.67%
L'azurde Company for Jewelry LLC ¹	1	1,000	1,000	1,021	0.33%
Total	300	1,000	300,000	306,371	100.00%

^{1.} L'azurde Company for Jewelry is a limited liability company incorporated in Abu Dhabi, United Arab Emirates.

The principal activities of L'azurde Dubai include trading in jewelry, pearls, precious and semi-precious stones, watches and their spare parts and the forging of gold and jewelry.

As at December 31, 2016, L'azurde Dubai holds an ownership interest of EGP 46,142,500 (equivalent to SAR 22,103,132) in L'azurde Egypt (representing 50% of its capital).

OWNERSHIP STRUCTURE

L'azurde Egypt for Jewelry

L'azurde Egypt is a limited liability company registered in Cairo, Egypt under commercial registration No. 14997 dated 8/6/2005 (corresponding to 1/5/1426H). The head office of L'azurde Egypt is located in the First Industrial Zone, P.O. Box 62, El Obour City, Egypt. The current paid up capital of L'azurde Egypt is EGP 92,285,000 (equivalent to SAR 44,206,264) (L'azurde Egypt is a limited liability company with the capital not divided into 92,285,000 shares). The following table summarises the ownership structure of L'azurde Egypt as at 31 December 2016:

Shareholders	No. of Shares	Nominal Value per Share (EGP)	Value of Capital (EGP)	Value of Capital (SAR)	Ownership Percentage
L'azurde Company for Jewelry LLC ¹	46,142,500	1	46,142,500	22,103,132	50%
L'azurde Company for Jewelry LLC ²	46,142,500	1	46,142,500	22,103,132	50%
Total	92,285,000	1	92,285,000	44,206,264	100.00%

- 1. L'azurde Company for Jewelry is a limited liability company incorporated in Abu Dhabi, United Arab Emirates.
- 2. L'azurde Company for Jewelry is a limited liability company incorporated in Dubai, United Arab Emirates.

The principal activities of L'azurde Egypt include the establishment and operation of a plant for the design, manufacturing, distribution and sale of gold and diamond jewelry.

As at December 31, 2016, L'azurde Egypt operates a manufacturing unit and three branches across Egypt.

As a part of L'azurde Group's future growth plans, the Company had started building a new factory in Egypt. This new factory was expected to be fully operational by the end of 2016. But, the depreciation of the Egyptian pound during second half of 2016 trigger challenges with prices and availability of the equipment to finalize the factory. Therefore, the Company has delayed the opening of this new factory to the second half of 2017. The new factory will specialise in manufacturing 21k, 18k, and 14k gold jewelry, bringing the total production capacity of 15 tons of gold jewelry per year. The total capital expenditure in connection with this new factory is around SAR 6million.

L'azurde Company for Jewelry (Abu Dhabi)

L'azurde Company for Jewelry ("L'azurde Abu Dhabi") is a limited liability company registered in Abu Dhabi, United Arab Emirates under commercial registration No. 1060233 dated 1/6/2004 (corresponding to 13/4/1425H). The head office of L'azurde Abu Dhabi is located at Gold Center Market, Madinat Zaid, P.O. Box 72147, Abu Dhabi, United Arab Emirates. The current capital of L'azurde Abu Dhabi is AED 300,000 (equivalent to SAR 306,371), divided into 300 shares with a fully paid nominal value of AED 1,000 (equivalent to SAR 1,021) per share. The following table summarises the ownership structure of L'azurde Dubai as at 31 December 2016:

Shareholders	No. of Shares	Nominal Value per Share (AED)	Value of Shares (AED)	Value of Shares (SAR)	Ownership Percentage
L'azurde Company for Jewelry	297	1,000	297,000	303,307	99%
L'azurde Company for Jewelry LLC ¹	3	1,000	3,000	3,064	1%
Total	300	1,000	300,000	306,371	100%

^{1.} L'azurde Company for Jewelry is a limited liability company incorporated in Dubai, United Arab Emirates.

The principal activities of L'azurde Abu Dhabi include the retail trade in jewelry, diamond and precious and semi-precious stone wares and watches.

As at December 31, 2016, L'azurde Abu Dhabi holds one share in Almujawharat Almasiah (representing 2% of its capital), one share in Kenaz (representing 2% of its capital) and one share in L'azurde Dubai (representing 0.33% of its capital), as well as an ownership interest of EGP 46,142,500 (equivalent to SAR 22,103,132) in L'azurde Egypt (representing 50% of its capital).

L'azurde for Jewelry (Qatar)

L'azurde for Jewelry ("L'azurde Qatar") is a limited liability company registered in the State of Qatar under commercial registration No. 60716 dated 21/5/2013 (corresponding to 11/7/1434H). The head office of L'azurde Qatar is located in Gabar Ban Mohamed Street, P.O. Box 20464, Doha, Qatar. The current capital of L'azurde Qatar is QAR 200,000 (equivalent to SAR 206,054), divided into 200 shares with a fully paid nominal value of QAR 1,000 (equivalent to SAR 1,030) per share. The following table summarises the ownership structure of L'azurde Qatar as at 31 December 2016:

Shareholders	No. of Shares	Nominal Value per Share (QAR)	Value of Shares (QAR)	Value of Shares (SAR)	Ownership Percentage
Wafiqah Sultan Al Essa	102	1,000	102,000	105,087	51%
L'azurde Company for Jewelry – Listed Company	98	1,000	98,000	100,967	49%
Total	200	1,000	200,000	206,054	100%

The principal activities of L'azurde Qatar include trading in gold, unworked precious metals, jewelry, and gold and silver jewelry and wares; forging of gold, precious metals and jewels; and repairing of gold, jewelry, jewels and wares, and implementing alterations thereto.

Oro Egypt Company for Manufacturing Precious Metals

Oro Egypt is a closed joint stock company registered in Cairo, Egypt under commercial registration No. 7877 dated 14/11/1423H (corresponding to 17/1/2003G). The head office of Oro Egypt is located in Obour Market, P.O. Box 3067, Qalyubia, Egypt. The current capital of Oro Egypt is EGP 40,000,000 (equivalent to SAR 19,160,676) divided into 1,600,000 shares with a fully paid nominal value of EGP 25 (equivalent to SAR 11.98) per share. The following table summarises the ownership structure of Oro Egypt:

Shareholders	No. of Shares	Nominal Value per Share (EGP)	Value of Shares (EGP)	Value of Shares (SAR)	Ownership Percentage
L'azurde Company for Jewelry - listed company	1,586,000	25	39,650,000	18,993,021	99.125%
Almujwharat Almasiah LLC	12,000	25	300,000	143,705	0.750%
Kenaz LLC	2,000	25	50,000	11,975	0.125%
Total	1,600,000	25	40,000,000	19,160,676	100.00%

The principal activities of Oro Egypt include the establishment and operation of a plant for the manufacturing of jewelry, gold wares and precious stones of all types and the establishment of a training centre. Oro Egypt operates a manufacturing unit in Qalyubia, and six branches across Egypt.

STRATEGIC BUSINESS REVIEW

DISTRIBUTION CHANNELS

Gold Jewelry Wholesale

L'azurde Group designs and manufactures gold jewelry in Egypt and the Kingdom, and sells gold jewelry across more than 25 countries mainly in the MENA region and through more than 2,200 third party independent retailers. Sales are primarily made by a well established and professional wholesale sales team which continually reinforces collaboration and partnership with customers and key accounts. The sales team is continuously seeking opportunities to expand jewelry distribution to new customers while preserving and developing the brand image. L'azurde Group maintains a strong marketing presence in the windows of third party retailers through the supply of branded L'azurde displays and effective trade marketing strategies. The marketing team supports the retailers with events in the market to help drive the sales of L'azurde Group's jewelry. Customer knowledge and close collaboration is a major competitive advantage for L'azurde Group. L'azurde Group has its own wholesale team in the Kingdom, Egypt, the UAE and Qatar. In other markets L'azurde Group sells through exclusive and non exclusive distributors or sells directly to various retailers.

Diamonds Jewelry Wholesale

To expand its revenues and leverage its strong brand name, L'azurde Group started a new diamond wholesale jewelry operation back in 2013. L'azurde Group established a dedicated sales team selling L'azurde branded diamond jewelry and Kenaz branded diamond jewelry to third party retailers in the largest markets of the Kingdom and Egypt. The diamond jewelry sold through this channel is partly manufactured in house and also outsourced from third party manufacturers with whom L'azurde Group has longstanding relationships. Even when L'azurde Group outsources diamond jewelry manufacturing, L'azurde Group's team gives discretion on the designs and types of jewelry appropriate for the market before placing the production order with the supplier. L'azurde Group outsources some of the manufacturing in order to best optimise its manufacturing capacity, resources and costs. L'azurde Group decided to focus initially on the Kingdom's and Egyptian markets to ensure the success of the new business line before expanding into new territories and launching new product lines.

L'azurde Gold and Diamonds Jewelry Retail

To diversify its revenues and leverage the well established brand name, L'azurde Group decided to expand into the retail jewelry business focusing initially on the Kingdom and Egypt. As at 31 December 2016, L'azurde Group operates its own portfolio of 16 L'azurde branded jewelry stores, 13 in Saudi Arabia, two stores in Egypt, and one store in the UAE.



During 2016, L'azurde started to expand it's retail network through open new showrooms in top shopping malls across Saudi Arabia and Egypt.

L'azurde Group's strategy is focussed on launching new L'azurde branded retail shops at top locations in key shopping malls focusing mainly on assortment of diamond jewelry. The vision is to reach a network of 50 shops in the coming years, with a focus on securing top locations to maximise revenues and profitability.

L'azurde Group has established a dedicated and experienced retail management team with strong organisational support to grow the retail business. The retail business does not conflict with the gold jewelry wholesale business as the retail focus of L'azurde Group is on diamond jewelry sold by piece while the gold jewelry wholesale business sells gold jewelry by weight. In addition, the L'azurde branded retail stores owned by L'azurde Group are mostly located in the shopping malls whereas the majority of the gold wholesale customers are in gold souks.

CUSTOMER KNOWLEDGE AND CLOSE COLLABORATION WITH RETAIL PARTNERS IS A MAJOR COMPETITIVE ADVANTAGE FOR L'AZURDE GROUP

Locations of L'azurde jewelry retail showrooms as at 31 December 2016

Country	Province	Location
The Kingdom	Riyadh	Andalos Mall
	Riyadh	Taiba Market
	Riyadh	Nakheel Mall
	Riyadh	Sahara Mall
	Riyadh	Olaya Street
	Riyadh	Panorama Mall
	Dammam	Dahran Mall
	Dammam	Al Rashid Mall
	Al Ahsaa	Arabian Centre
	Jeddah	Red Sea Mall
	Jeddah	Hera International Market
	Jeddah	Yasmin Mall
	Jeddah	Andalus Mall
UAE	Al Ain	Al Ain Mall
Egypt	Cairo	Cairo Festival City
	Cairo	Mall of Arabia

Kenaz Diamonds Jewelry Retail:

Kenaz is a value brand targeted at daily wear occasions and gifting and it is being sold in 5 kiosks in major malls in Riyadh, Dammam and Jeddah. L'azurde's vision is to accelerate the expansion of Kenaz diamond products throughout KSA, GCC and Egypt by opening 10 new Kiosks.

Amazing Jewelry:

By the end of the year 2016, L'azurde Group was at the final stage of completing a franchise regional deal with Amazing Jewelry. Amazing Jewelry was founded in Copenhagen, Denmark by Mr. Jesper Nielsen, former co-founder of Pandora Central Western Europe, a part of the Pandora Group. The brand is sold now in mono-branded retail shops in several countries including Denmark, Germany, Norway, Sweden, and China. L'azurde Group acquired the franchise for KSA, Egypt and 7 other countries in the MENA region for a period of 25 years. This new a franchise will provide new sources of revenues for the L'azurde Group and diversifies its revenues by expanding its retail operations and targeting new segment of consumers. L'azurde Group will launch Amazing in Q1 2017, starting with 4 retail locations in top malls in KSA and Egypt.

During 2016, L'azurde Group started to expand it's retail network through using kiosks in top shopping malls across Saudi Arabia and Egypt. This new distribution channel makes L'azurde Group products available to the targeted end consumers of middle class. As of December 2016, L'azurde Group operates 8 kiosks, 7 in Saudi Arabia and one in Egypt.

STRATEGIC BUSINESS REVIEW

OWNERSHIP STRUCTURE

Location of L'azurde Group's own jewelry kiosks as at 31 December 2016

Country	Province	Location
The Kingdom	Riyadh	Nakheel Mall
	Riyadh	Panorama Mall
	Dammam	Dahran Mall
	Dammam	Rashid Mall
	Jeddah	Arab Mall
	Jeddah	Jeddah Airport - Domestic
	Jeddah	Jeddah Airport - International
Egypt	Cairo	City Stars mall

Distribution of Jewelry Manufacturing Machinery

In addition to the wholesale and retail jewelry and diamond businesses, L'azurde Group represents various manufacturers of jewelry machinery equipment and sells in the Kingdom their machinery to various local manufacturers of gold and diamond jewelry, such as jewelry casting, laser soldering and ultrasonic machines. This small but strategic business helps L'azurde Group strengthen its collaboration with global jewelry equipment manufacturers and stay up to date with the latest market developments.

The following table outlines L'azurde Group's revenue from its operations by product category:

	2012		20	13	20	14	201	15	20	16
	SAR Million	% of total revenue	SAR Million	% of total revenue	SAR Million	% of total revenue	SAR Million	% of Total revenue	SAR Million	% of total revenue
Gold sales jewelry	303.4	85%	381.3	85%	400.4	85%	449.3	85%	319.1	79%
Diamond sales jewelry	44.8	13%	58.8	13%	59.2	13%	71.6	13%	67.5	19%
Machinery and Others	8.4	2%	7.7	2%	8.8	2%	9.2	2%	7.8	2%
Total	356.7	100%	447.9	100%	468.4	100%	530.1	100%	405.4	100%

STRATEGIC BUSINESS REVIEW

HISTORY AND THE KEY CHANGES

L'azurde Company for Jewelry is a joint stock company registered under commercial registration No. 1010221531 dated 26/6/1427H (corresponding to 22/7/2006) and formed pursuant to Ministerial Resolution No. 565 dated 4/3/1427H (corresponding to 2/4/2006) on the establishment of the Company, approving the Company's incorporation as a joint stock company with a capital of SAR 430,000,000, divided into 43,000,000 ordinary Shares with a nominal value of SAR 10 per Share. The Company's head office and registered office is located in the Second Industrial Area, St. No. 198, Banks District P.O. Box 41270, Riyadh 11521, Kingdom of Saudi Arabia. The Company's main activities include the production, manufacturing, forming and forging of gold wares, jewelry, precious stones, gold alloys and gold sets formed with precious and semi-precious stones; distribution of jewlery, accessories, glasses, watches, pens, perfumes and leather products; export of gold wares and gold alloys, and forming, buying and selling precious metals and stones.

The Company was originally established as a sole establishment owned by Mr Abdulaziz Saleh Al Othaim in Riyadh, under the name of "the Saudi Gold & Pearl Factory" with a capital of SAR 18,500,000, and registered in the commercial register in the city of Riyadh under commercial registration No. 1010091134, dated 18/7/1412H (corresponding to 23/1/1992).

On 4/2/1415H (corresponding to 13/7/1994), "L'azurde" trademark was first registered; and on 18/8/1418H (corresponding to 19/12/1997), the name of the establishment was changed to "L'azurde Gold & Jewelry Factory".

The establishment of L'azurde Gold & Jewelry Factory and a number of its branches were changed to a Saudi closed joint stock company under the name of L'azurde Company for Jewelry registered in Riyadh, the Kingdom by virtue of the Ministerial Resolution No. 565 dated 4/3/1427H (corresponding to 2/4/2006) and the Commercial Registration No. 1010221531 dated 26/6/1427H (corresponding to 22/7/2006) issued in Riyadh, with a share capital of SAR 200,000,000 divided into 4,000,000 ordinary shares with a nominal value of SAR 50 per share.

On 5/11/1423H (corresponding to 8/1/2003), OroEgypt Company for Manufacturing Precious Metals ("OroEgypt"), a joint stock company with paid capital of EGP 20,000,000 (equivalent to SAR 9,578,227), was established in Egypt by Mr Abdulaziz Saleh Al Othaim, the main shareholder of the Company at that time, and other founders. It started operations on 21/11/1423H (corresponding to 23/1/2003). The main activities at that time were limited to manufacturing, production, forming and forging golden wares, jewelry and precious and semi-precious stones.

On 8/3/1428H (corresponding to 27/3/2007), the Company acquired a 100% of direct and indirect interest in Oro Egypt Company.

Under the Extraordinary General Assembly Resolution dated 10/09/1428H (corresponding to 22/09/2007), the capital of the Company was increased to Saudi Riyals SAR 300,000,000 divided into SAR 30,000,000 ordinary shares with a nominal value of SAR 10 per share, through a capitalisation of SAR 100,000,000 from the Company's retained earnings.

On 11/9/1433H (corresponding to 30/7/2012), L'azurde Group extended its existence in Egypt through acquiring a 100% indirect interest in L'azurde Egypt for Jewelry (LLC) ("L'azurde Egypt"), becoming its second production unit in Egypt. The main activities at that time are establishing and operating a factory to produce golden wares, jewelry and precious stones.

On 4/7/1436H (corresponding to 23/4/2015), the capital of the Company was increased from SAR 300,000,000 to SAR 430,000,000, divided into 43,000,000 ordinary shares by way of issuing 13,000,000 new shares at a par value of SAR 10 per share, through a capitalisation of: (i) SAR 52,509,121 from the Company's statutory reserve; and (ii) SAR 77,490,879 from the Company's retained earnings.

On 9/5/2016 The Capital Market Authority announces the Initial Public Offering of L'azurde Company for Jewelry, The CMA Board has issued its resolution approving L'azurde Company for Jewelry initial public offering of (12,900,000) shares representing (30%) of the Company's share capital.

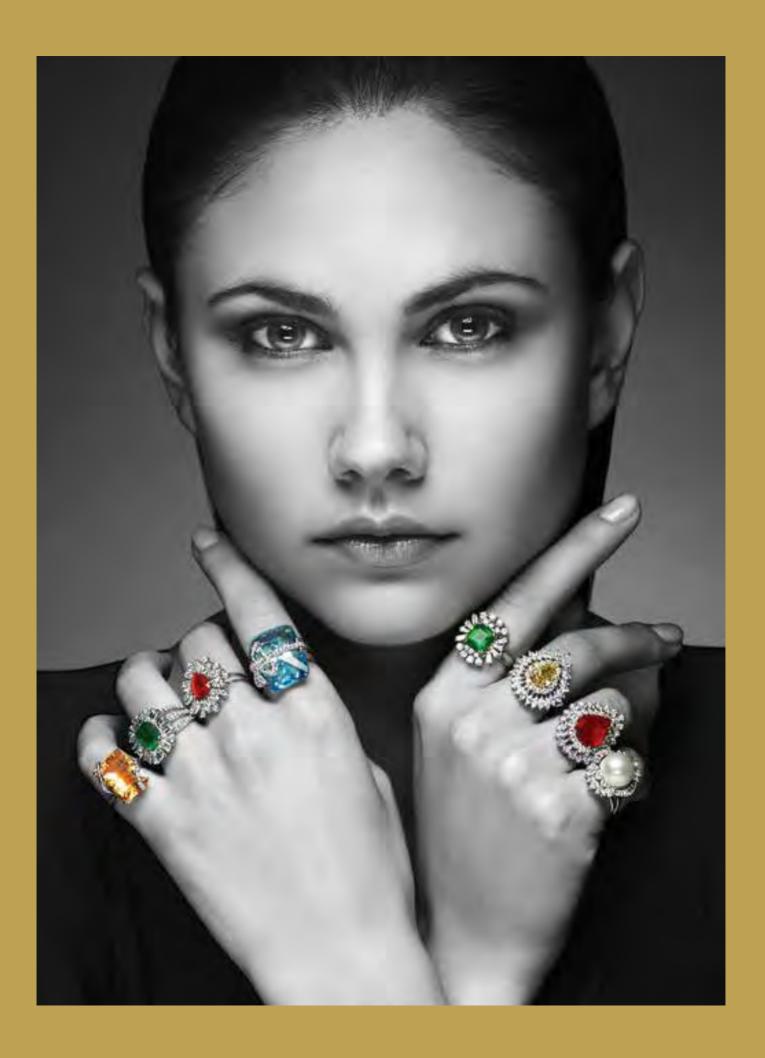
On 29/6/2016 Shares of L'Azurde For Jewelry Company has started trading on the Saudi Stock Exchange (Tadawul) under the code 4011 with a fluctuation limit of 10 percent.

As at 31 December 2016, L'azurde Group operated directly in 18 wholesale offices within the Kingdom and in the United Arab Emirates, Qatar, and Egypt, with three manufacturing units (one in the Kingdom and two in Egypt), and 14 retail showrooms (located across the Kingdom, the United Arab Emirates and Egypt). In addition, L'azurde Group sells its products in 52 countries through a network of exclusive and non-exclusive distributors, wholesalers and retailers.

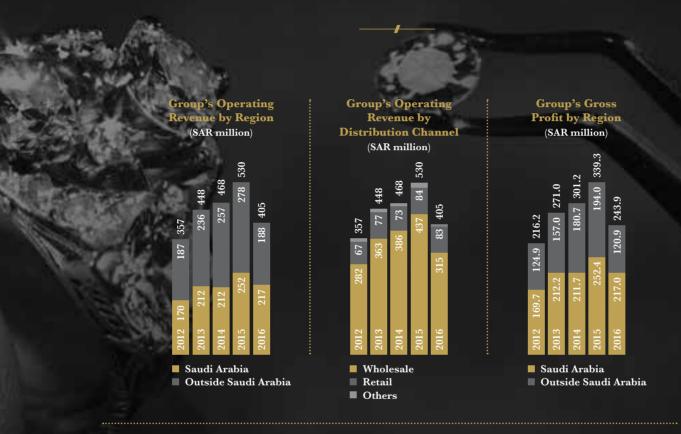
As at 31 December 2016, L'azurde Group employed a total of 2,132people across all the countries where it operates.

FINANCIAL PERFORMANCE

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KEY FINANCIAL HIGHLIGHTS





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FINANCIAL PERFORMANCE

L'azurde Key Financial Highlights (SAR million)

	2012	2013	2014	2015	2016
Operating Revenues	357	448	468	530	405
Operating Cost of Revenues	(140)	(177)	(167)	(191)	(162)
Gross Margin	216	271	301	339	244
Selling and Marketing Expenses	(94)	(112)	(122)	(137)	(134)
General and Administration Expenses	(33)	(41)	(49)	(52)	(43)
Operating Income	89	118	131	149	67
Financing Expenses	(30)	(30)	(28)	(35)	(34)
Other Income (expenses)	2	(2)	(3)	4	58
Zakat and Tax	(10)	(12)	(13)	(18)	(19)
Net Income	51	74	86	101	72
BALANCE SHEET					
Inventories	920	849	978	976	806
Accounts Receivable	189	174	280	390	425
Other Current Assets	134	300	314	327	240
Property, Plant and Equipment	65	66	66	75	68
Total Assets	1,308	1,390	1,637	1,767	1,539
Short-term Loan	823	816	1,050	1,115	1,021
Other Current Liabilities	65	83	76	129	83
Non-current Liabilities	21	24	29	32	32
Total Liabilities	909	923	1,154	1,276	1,136
Equity	407	481	504	530	579
Foreign Currency Translation Reserve	(8)	(14)	(21)	(39)	(176)
Total Shareholders' Equity	398	466	483	491	403
Total Liabilities and Shareholders' Equity	1,308	1,390	1,637	1,767	1,539
CASH FLOW					
Cash Flow from Operating Activities	(8)	172	(4)	192	47
Cash Flow Used in Investing Activities	(15)	(26)	1	(21)	(24)
Cash Flow Used in Financing Activities (excluding dividends)	(20)	(17)	-	-	17
Dividends Paid	-	-	(63)	(43)	(55)
KEY INDICATORS					
Return to operating revenues	14.4%	16.6%	18.4%	19.0%	17.8%
EBITDA to operating revenues	28.1%	28.9%	30.0%	30.1%	19.1%
EBIT to operating revenues	25.0%	26.3%	27.9%	28.2%	16.5%
Return on Operating Assets	3.9%	5.3%	5.3%	5.7%	4.7%
Return on Equity	12.9%	15.9%	17.9%	20.5%	17.9%
Current Ratio	139.8%	147.2%	139.6%	136.0%	133.2%
Operating Revenue Growth	11.9%	25.6%	4.6%	13.2%	-23.5%
Net earnings per share	1.7	2.5	2.0	2.3	1.7

KEY FINANCIAL HIGHLIGHTS

Income and financial position statements in the last five years

Income statement

	2012 2013		13	20	14	2015		2016		
	MSAR	% of Sales	MSAR	% of Sales	MSAR	% of Sales	MSAR	% of Sales	MSAR	% of Sales
Operating Revenues	357	100.0%	448	100.0%	468	100.0%	530	100.0%	405	100.0%
Gross Profit	216	60.6%	271	60.5%	301	64.3%	339	64.0%	244	60.2%
Operating Income	89	25.0%	118	26.3%	131	27.9%	149	28.2%	67	16.5%
Other (expenses)/income	2	0.56%	(2)	0.45%	(3)	0.65%	4	0.75%	58	14%
Net Income before Zakat	61	17.2%	86	19.2%	100	21.2%	119	22.4%	91	22.4%
Net Income	51	14.4%	74	16.6%	86	18.4%	101	19.0%	72	17.8%

Operating revenue grew by 48.6% during the three years ended 2015. In the year 2016 there was a decline of 23.5% due to a slowdown in consumer spending across all markets, in addition to the company's actions to reduce inventory at the retailers to ensure that customers have the latest new products, which meet the new market trends, and to reduce accounts receivable, working capital and financing cost. In general, same applicable to operating income, net income before Zakat and net income.

Gross margin grew by 3.4 points during the three years ended 2015, while declined by 3.8 points in the year 2016 due to the decline in operating revenues.

Other (expenses)/income amounted to SAR 58 million are mainly due to a one-off foreign exchange gain, as a result of the official flotation of the Egyptian Pound in November 2016. The foreign exchange gain resulted from the appreciation of some US dollar denominated assets in Egyptian subsidiaries and the depreciation of Egyptian Pound denominated liabilities in Saudi Arabian operations, which are held mainly to hedge Egyptian currency exposure.

Zakat and income tax expenses at SAR 18.9 million were higher than last year by 3.1% due to an additional Zakat provision made this year as a result of receiving, on 5 March 2017, zakat assessments for the years 2005 to 2014 with additional zakat liability of approximately SR 10.6 million for these years. Under the Saudi Arabian Zakat regulations, the Company has the right to file an appeal against such assessments within 60 days from receiving the assessments.

Net income for the year 2016 amounted to SAR 72.1 million, a decrease of 28.5 million or 28.3% compared to the last year at SAR 101.6 million, This was mainly due to a slowdown in consumer spending across all markets.

Group's Operating Revenue by Region

SAR million	2012	2013	2014	2015	2016
Saudi Arabia	169.7	212.2	211.7	252.4	217.0
Out of KSA	187.0	235.7	256.7	277.7	188.4
Total	356.7	447.9	468.4	530.1	405.4

Saudi Arabia operating revenue grew by 48.7% during the three years ended 2015. In the year 2016, it declined by 14% due to slowdown in consumer spending.

Outside Saudi Arabia, operating revenue grew by 48.5% during the three years ended 2015. In the year 2016, it declined by 32.2% due to slowdown in sales in Egypt and UAE.

Group's Revenue by Distribution Channels

SAR '000	2012	2013	2014	2015	2016
Wholesale gold and diamond	290	371	396	446	323
Retail	67	77	73	84	83
Total	357	448	468	530	405
Group's Gross Profit by Region					
SAR million	2012	2013	2014	2015	2016
Saudi Arabia	91.3	114.0	120.5	145.3	123.0
Out of Saudi Arabia	124.9	157.0	180.7	194.0	120.9
Total Gross Profit	216.2	271.0	301.2	339.3	243.9

Saudi Arabia gross profit grew by 59.1% during the three years ended 2015. In the year 2016, it declined by 15.3% due to lower operating revenues.

Outside Saudi Arabia, gross profit grew by 55.3% during the three years ended 2015. In the year 2016, it declined by 37.7% due to lower operating revenues and the fixed cost.

Balance Sheet

SAR million	2012	2013	2014	2015	2016
Current assets	1,243	1,324	1,571	1,692	1,470
Current Liabilities	889	900	1,125	1,244	1,104
Equity					
SAR million	2012	2013	2014	2015	2016
Equity*	407	481	504	530	579
Equity per share	13.6	16.0	16.8	12.3	13.5
Dividends	26	37	43	55	-
Dividends per share	0.90	1.2	1.4	1.3	-

^{*} Equity excludes foreign currency translation reserve

KEY FINANCIAL HIGHLIGHTS

Summary of major changes in Group financial and operations results during 2016 comparing with 2015

Changes in Income Statement

	201	15	201	2016		
	SAR	% of Revenues	SAR	% of Revenues		
Operating Revenues	530.1	100.0%	405.4	100.0%	-23.5%	
Gross Profit	339.3	64.0%	243.9	60.2%	-28.1%	
Operating Income	149.5	28.2%	66.9	16.5%	-55.2%	
Net Income	100.6	19.0%	72.1	17.8%	-28.3%	

Changes in L'azurde activities by sectors

Operating Revenue, Gross Profit and Net income by Region for the Years Ended 31 December 2015 and 2016

Region		2015 SAR million			2016 SAR million			
	Revenue	Gross Profit	Net Income	Revenue	Gross Profit	Net Income		
Saudi Arabia	252.4	145.3	47.7	217.0	123.0	86.3		
Out of Saudi Arabia	277.7	194.0	52.9	188.4	120.9	(14.2)		
Total	530.1	339.3	100.6	405.4	243.9	72.1		

Operating Revenues for the year ended 31 December 2016 amounted to SAR 405.4 million declined by 23.5% compared to last year at SAR 530.1 million due to a drop in consumer spending across all markets. Segmented by geography, Operating Revenues were lower in KSA by 14.0%, Egypt by 31.8%, GCC by 26.8% and Export by 70.4%. Segmented by channel, Wholesale declined by 27.6%, while Retail declined by 1.9%.

Gross profit for the year amounted to SAR 243.9 million declined by 28.1% compared to last year at SAR 339.3 million. The company managed to defend gross margin and achieved 60.2%, which is marginally lower than last year, despite volume reduction.

Operating Income for the year amounted to SAR 66.9 million, a decrease of 55% compared to the corresponding period last year at SAR 149.5 million.

Net income for the year 2016 amounted to SAR 72.1 million, a decrease of 28.5 million or 28.3% compared to last year at SAR 100.6 million.

Gross Profit, Operating Income and Net Income for the period represented 60.2%, 16.5% and 17.8% of Operating Revenues compared to 64.0%, 28.2% and 19.0% in the last year, respectively.





FINANCIAL PERFORMANCE





Finance and Borrowing

Total gold facilities used by the company as at 31 Dec, 2016 amounted to SAR 1,003.6 million (230,686 ounces) compared to SR 1,114.8 million (279,591 ounces) in last year. The reduction was achieved due to reduction in working capital.

The margin deposit against gold facilities of the company as at 31 Dec, 2016 amounted to SAR 170.9 million compared with SAR 116.64 million in 31 December 2015. The increase is due to SWAP agreements with ICBC Standard bank where the margin is 105%. The swap facility helps in reducing the weighted average financial cost on gold facilities.

Financial charges for the year 2016 amounted to SAR 34.4 million compared to SAR 34.9 million last year due to reducing working capital despite a slight increase in the gold loans borrowing rates.

Gold and Cash Facilities Movement during 2016

Short-term loans primarily consist of Islamic Murabaha and gold facilities granted by certain banks, at commercial special commission rates, which are mainly secured by restricted cash margin deposits and gold inventory. As at 31 December, the details are as follows:

Type of facilities

	2015	2016
	SR	SR
Murabaha	1,114,782,660	906,881,904
Commodity netting	-	68,716,653
Gold loan	-	27,972,911
Total Gold Facilities	1,114,782,660	1,003,571,468
Cash loan	-	17,000,000
	1,114,782,660	1,020,571,468

Movement in short-term facilities and cash loans during the year was as follows:

	2015 SR	2016 SR
At the beginning of the year	1,049,615,311	1,114,782,660
Borrowings during the year	10,453,760,693	9,739,226,595
Repayments during the year	(10,388,593,344)	(9,833,437,787)
At the end of the year	1,114,782,660	1,020,571,468

Compliance with Shariah Rules

To comply with Islamic rules "shariah" related to gold transactions, the company uses Islamic gold facilities and loans which are fully compliant with Sharia and approved by Banks' internal Sharia Committees in the form of Tawarruq and Murabaha to procure gold from local or international markets.

More than 90% of gold facilities used to finance gold sourcing are compliant with the Standard No. (57) Gold Transactions' rules that has issued by Accounting and auditing organization for Islamic Financial Institutions "AAOIFI"

SUMMARY OF FINANCIAL AND OPERATIONS RESULTS

Employees' Reserves

As of Dec. 31, 2016, there are no investments made or any reserves set up for the benefit of the employees except for the Employees' terminal benefits according to the labor law requirements.

Provision of Employees' terminal benefits is made for amounts payable under the Saudi Arabian labor law applicable to employees' accumulated periods of service at the balance sheet date.

The following is the movement in Employees' terminal benefits during 2016

	2015 SAR	2016 SAR
At the beginning of the year	28,938,869	31,398,243
Charge for the year	7,950,272	4,235,554
Net foreign exchange differences	(759,010)	(1,198,235)
Payments during the year	(4,731,888)	(2,729,285)
At the end of the year	31,398,243	31,706,277

Statutory Charges, Penalties & sanctions

1. Payments during 2016

L'azurde is committed to paying certain fees and expenses to the Saudi Arabian government as per applicable laws and regulations. These expenses are charged as a result of the company's operations. The following table illustrates the statutory charge during year 2016 with a brief description and rational reason

Statutory payment made in Saudi Arabia during 2016 (SAR million)

Statutory organization	2015	2016	Description	Reason
Saudi Customs Authority	977,981	923,162	Amounts paid or charged as customs fees expenses, according to import and export	Government requirement / customs laws and regulations
General Authority of Zakat and income tax	12,576,686	12,933,329	Amounts charged as Zakat expense according to the provisions and rules of Zakat	Government requirement/ Zakat and income tax laws and regulations
General organization for social insurance	2,804,213	2,667,384	Amounts paid or charged as social insurance expense according to Labor and social insurance Laws	Government requirement/ Labor and social insurance laws and regulations
Other statutory organizations	2,640,988	2,983,056	Amounts paid or charged as expenses according to various laws and regulations	Other government requirements/ laws and regulations
Total	18,999,868	19,506,931		

2. Penalties & Sanctions

L'azurde was not exposed to any penalty, nor sanction nor or precaution by any supervisory regulatory or judicial unit.

Preparation of the financial statements and IFRS Conversion Plan

The Interim Consolidated Financial Statements are issued with a limited review report, while the Annual Consolidated Financial Statements are issued with audit report by external auditors in accordance with The Accounting Standards issued by The Saudi Organization of Certified Public Accountants (SOCPA). Any accounting treatment not covered by the Saudi Accounting Standards shall be referred to the Accounting treatment applied by International Financial Reporting Standards (IFRS) in accordance with the requirements of the SOCPA.

Ernst and Young (EY) was appointed as external auditors for the fiscal year 2016, after the Audit Committee submitted its recommendation to the Board of Directors. This includes the annual Consolidated Financial Statements and Interim Consolidated Financial Statements of the Company. The board of directors requested the approval of the nomination of EY and its fee at the General Assembly session on 1 March 2016, during which the appointment was approved.

After auditing the Consolidated Financial statements for the year ended 2016, EY issued an unqualified audit report expressing an opinion that the financial statements as a whole present a fair view in all material aspects, the consolidated financial position of the Group and its consolidated results of operations and its consolidated cash flows for the year then ended31 December 2016 and comply with regulatory requirements for companies.

The board of directors of the Saudi Certified Accountants Association, in their seventh meeting of the seventh term held on Thursday 18th July 2013, approved the implementation of after being certified by SOCPA such that the nearest date of IFRS implementation to prepare the financial statements for listed companies in Saudi Stock Exchange is 1st January 2017.

In 2016, the L'azurde Board of Directors passed a resolution to approve the implementation plan for IFRS. This implementation plan will allow L'azurde to apply IFRS to its Consolidated Financial Statements and will enable a controlled and smooth transition to IFRS, on time and without significant constraints.

The implementation plan comprises the following phases;

- Gap analysis
- Impact assessment
- Design and implementation of conversion
- Preparation of the first IFRS compliant statutory Financial Statements

So far, L'azurde satisfactorily achieved its target phases for the implementation its plan to ensure the issuance of IFRS compliant Statutory Interim Financial Statements by 31st March 2017.

Management's Annual Report on Internal Control over Financial Reporting

L'azurde's management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with General Accepted Accounting Principles "GAAP" issued by SOCPA. L'azurde's internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of L'azurde's assets; and
- 2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that L'azurde's receipts and expenditures are being made only in accordance with authorizations of L'azurde's management and directors; and
- 3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of L'azurde's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

L'azurde's management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, management concluded that L'azurde's internal control over financial reporting was effective as of Dec. 31, 2016.

Ernst and Young, an independent registered public accounting firm that audited the consolidated financial statements as of December 31, 2016, included in this report,

SUMMARY OF FINANCIAL AND OPERATIONS RESULTS

Social Responsibility

Since its incorporation the L'azurde Group has always believed in the importance of giving back to the community and in social responsibility, reinforcing the moral obligation of corporates towards the communities they serve.

L'azurde is continuing its support to social and charity organizations in KSA through providing financial, kind and moral support to different community causes; such as disabled children, supporting woman and most recently, raising awareness and funds for breast cancer in association with the Breast Cancer Arabia association.

Environment, health and safety

L'azurde Group maintains a strong security presence to thoroughly control its production facilities, wholesale offices, retail shops and the transportation of jewelry. L'azurde Group regularly collaborates with security consultants to review and upgrade its security procedures and standards.

The company is highly interested in the safety regarding the production process and the maintenance of the safety standards. For these reasons the Company adopts the slogan's and policies for "Safety First" and its goal "No Accidents".

L'azurde is implementing a lot of procedures and controls that aligned with international safety standards to keep its employees safe and provide required high standards' equipment and personal safety tools that fit nature of work and surrounding risks.

L'azurde Group makes significant efforts to offer a safe and healthy environment for its jewelry craftsmen and all employees. L'azurde Group has adopted an occupational safety and health management system to ensure it offers a safe and healthy environment for all employees. L'azurde Group's safety department provides training, coaching, monitoring and controlling procedures to ensure the implementation of an effective system through an experienced safety team equipped with up to date tools and systems. L'azurde Group maintains clinics with doctors at its factories to provide immediate professional medical care for employees.

L'azurde has obtained several certifications for high international standards for Environment, Health and Safety like Occupational Health and Safety Management System (OHSAS 18001:2007), Environmental Management Systems (ISO 14001:2004) and Energy Management System (ISO 50001:2011).

Capital, investors and ownership

a. Capital

The following table is summarizing L'azurde Capital as of Dec. 31, 2016

Description	Value / No. of Share
Authorized Share Capital	SAR 430,000,000
Issued Shares	43,000,000
Free Float shares	12,900,000
Paid up Capital	SAR 430,000,000
Par Value/share	SAR 10
Paid-up value/share	SAR 10

Major shareholders and ownership changes

By the end of 2016, L'azurde had 35,295 shareholders. Corporate investors represent 74.5% of the total share ownership whilst individual investors represent 25.5%. There is one shareholder owning one million or more shares in L'azurde, representing 70% of L'azurde's issued shares. The following tables give a description of investors in L'azurde.

L'azurde investors according to nature of investors

Investor Type	Number of Investors	Number of shares	Percentage of ownership
Corporate	35	32,028,162	74,5%
Individual	35260	10,971,838	25,5%
Total	35,295	43,000,000	100%

L'azurde investors according to Nationality

Investor Nationality	Number of Investors	Number of shares	Percentage of ownership
Saudi	35,213	42,861,476	99.68%
GCC	4	14,625	0.03%
Other Nationalities	78	123,899	0.29%
Total	35,295	43,000,000	100%

b. Ownership notification

According to Article (45) of the listing rules issued by the Capital Marketing Authority, during 2016 L'azurde did not receive any notification of new ownership percentage of more than 5% of the shares issued to the Company or any reduction in the percentage occurring at the beginning of the trading date 29 June 2016, as indicated by the following table.

Ownership of 5% and more of the issued shares

Investor	Listing Date 29 June	End of the	year	
	Number of shares Percentage of ownership		Number of shares	Percentage of ownership
L'azurde Holding Company	30,099,000	70%	30,099,000	Almost 70%

DIVIDENDS



a. Dividends Policy

At the end of the year, the Board estimates a dividend payment for the year, which will be subject to reduction or increase at the end of the year based on the Company's by-laws, internal policies and certain circumstances, including changing market conditions and restrictions under applicable laws in the Kingdom (if applicable).

On an annual basis and at the end of the year, the Board recommends to the General Assembly a potential distribution of dividends as a percentage of capital. The article (46) of Company's by-laws state that the net annual profits shall, after deduction of all general expenses, be divided as follows:

- 1. 10% of the annual net profits shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the ordinary general meeting when the said reserve total has reached an amount equal to 30% of the Company's capital if the said reserve exceeds 30% of the paid-up capital, the General Assembly may resolve to distribute the excess to the Shareholders.
- 2. The Ordinary General Assembly, upon a proposal by the Board of Directors, may set aside 10% of the net profits to constitute a consensual reserve to be allocated for a certain purpose or purposes.

The consensual reserve may not be used for a purpose or purposes other than the purpose or purposes for which it was established without a resolution of the Extraordinary General Assembly upon a recommendation from the Board of Directors.

- 3. Thereafter, deducted from remainder shall be distributed among the shareholders as a first installment equal to 5% of the paid-up capital.
- 4. Without prejudice to the provisions of Article (20) of these bylaws and Article (76) of the Companies Law, in addition to the above, no more than (5%) of the remaining profits shall be distributed as a bonus to the members of the Board of Directors, provided that the bonus is commensurate with the number of sessions attended by each member.
- 5. The remainder shall be distributed to the shareholders as an additional portion in the profits, or shall be transferred to the retained earnings, as may be determined by the ordinary general meeting based on the recommendation of the Board.

b. Dividends distributions

The Company, after complying with the regulations laid down by the competent authorities, may distribute semi-annual or quarterly dividends.

As per Article (47) of L'azurde's by-laws, Each Shareholder is entitled to his/her/its share of the dividends in accordance with the decision of the Board of Directors regarding the distribution of interim dividends or in accordance with the resolution of the General Assembly. The Decision or resolution shall be annotated with the due date and the date of distribution. Shareholders registered in the Shareholders Register shall be entitled to the dividends at the end of the day on which maturity occurs.

The profits distributed to shareholders shall be paid at the locations and time determined by the Board of Directors, in compliance with companies' law and CMA instructions.

L'azurde has achieved an average dividends pay-out ratio of approximately 50% of the annual net profit for the years 2012 to 2015 included. Despite the fact that the Company expects, as per its past distributions practice, to distribute annual cash dividends, there are no guarantees for the distribution of dividends on an ongoing basis. There are no guarantees to the value and percentage of expected dividends each year. Cash dividends are approved or recommended according to a number of aspects including profits achieved, cash flows, new capital investment and future prospects of outgoing funds, taking into account the importance of maintaining a strong financial position.

There are no arrangements or agreement under which a shareholder of the company has waived his rights to dividends.

c. Dividends history

The following table provides details related to L'azurde dividends payments during last five years; and dividends paid compared to net income (SAR million)

Year	Net Income	Dividends (SAR)	% of net income	Capital	Date of payment	Amount Per Share (SAR)
2012	51,476,139	25,738,069	50%	300,000,000	14/12/2014	0.86
2013	74,177,974	37,088,987	50%	300,000,000	14/12/2014	1.2
2014	86,290,539	43,145,269	50%	300,000,000	5/12/2015	1.4
2015	100,567,197	55,000,000	55%	430,000,000	29/3/2016	1.27

RISK

Risk factors and Business Continuity

a. L'azurde Risk Factors

Risks management process across L'azurde is directed through four levels of authority, each level has specific role as follow:

Authority	Role and responsibility
1. Level 1 - Board of Directors	• Monitor the effectiveness of risk management.
	 Review and recommend changes to the L'azurde risk management approach.
2. Level 2 Executive Management	• Monitor the effectiveness of the company risk management process.
	 Monitor that key risks are appropriately managed.
	Establish Group risk management approach
3. Level 3 Business Unit Management	 Ensure that an appropriate and effective process is in place to identify, assess and manage risks in business units.
	Drive risk mitigation and action plans
4. Level 4 Group Functions	• Ensure that an appropriate and effective process is in place to identify, assess and manage risks across the organization.
	• Coordinate corporate risk identification and assessment.
	Report on risk management initiatives and risks.

Taking action to mitigate risks

As a leading company in the MENA Region with central production facilities in KSA and Egypt, distribution network and points of sale across the region, L'azurde needs to proactively manage its risks. The Board of Directors makes regular assessments of the overall and specific risks associated with the Group's business and operations to ensure significant risk is managed in a proactive and efficient manner.

The Board of Directors regularly reviews the Group's established internal control systems – including all related functions, policies and procedures to ensure that they remain appropriate and sufficient to identify and mitigate the risks. In the case of highly complex transactions and contracts, we work with advisers to mitigate risks.

Risk Management Governance

The Audit Committee assists the Board of Directors in supervising the financial reporting process and the efficiency of L'azurde internal controls and risk management systems. The Audit Committee reviews significant risks related to L'azurde business, activities and operations as well as risks related to financial reporting.

The Executive Management is responsible for setting the tone of the risk management. Management at all levels is responsible for identifying and appropriately managing risks related to their business area. Group functions support and facilitate the implementation of the risk process.

Risk management activities and status

In 2016, we focused on mitigating and managing key risks reported in the year 2015. L'azurde has formed a Group Governance and Compliance role under the Internal Audit department to further drive its risk and control agenda. Furthermore, we have focused on increasing awareness of risk management across the organization.

At L'azurde, we prioritize risks to maintain a focus on the most relevant risks. Risks at L'azurde are evaluated based on the potential impact and likelihood analysis, and relevant actions are implemented to manage or mitigate the risk.

The L'azurde approach to risk management begins with establishing the context in which the Company and the relevant business units operate, including consideration of relevant strategic and business objectives. All types of risks are managed through the same process.

RISK FACTORS

The primary responsibility for risk management at L'azurde rests with the business unit and, in particular, with management. Management is responsible for identifying, analyzing, monitoring, controlling and reporting risks within the business. It is therefore a key part of the L'azurde Risk Management framework. A number of processes exist to ensure the Company makes well informed and controlled decisions on the level of risk to assume, and that the returns expected for a given risk outweigh the cost of assuming that risk.

Key risks

Risk is an integral part of any business. Managing risk appropriately is critical to the direct and future success of L'azurde.

L'azurde has developed a methodology aligned with the board of directors and managed by executive management. This methodology is dynamic and constantly evolving, thereby allowing L'azurde to manage its risks effectively and efficiently, ensuring that short and long term strategic and business objectives can be met.

As a publicly listed company and producer of high quality jewelry products in the region, L'azurde operates in a highly regulated environment, which is increasingly complex and demanding. The Company is therefore requested to comply with a number of regulatory requirements and legal obligations. The key regulators of L'azurde activities are the Capital Market Authority (CMA), the Saudi Stock Exchange (Tadawul) and other Governmental bodies such as the Ministry of Commerce and Investment (MOCI). L'azurde is also subject to a number of other GCC and regional legislative requirements.

Risk is the possibility of an event occurring that will have an impact on the strategic or business objectives of the Company. At L'azurde, both inherent and residual risks are considered and measured in terms of a combination of the consequences of an event and the likelihood of its occurrence. All categories of risks may give rise to reputational damage. In addition to reputational risk, the following categories represent the key risks that L'azurde faces:

Significant Risks Related to the Operations of L'azurde Group

1. Changing end-consumer preferences:

The jewelry industry is characterized by changing fashion trends and changing or evolving end-consumer preferences. The L'azurde Group strives to anticipate, identify and capitalize on emerging fashion trends by designing, developing, marketing and delivering innovative, good quality, well priced classic and fashionable jewelry. Failing to achieve the above can have significant negative impact on the consumer demand on L'azurde products and its revenues.

2. Decrease in end-consumer spending:

Different economic fluctuations in the Kingdom and other countries where L'azurde Group conducts its business can negatively affect the end-user consumption and behavior patterns towards luxury products and leisure goods, including gold and diamond jewelry sold by L'azurde. In addition, the decrease in end consumer disposable income coupled with the increase in gold prices, high inflation, changes in fashion trends and many other factors, the consumers tend to resell, return or exchange their gold jewelry. L'azurde Group's internal policies in some countries accept some returns and exchanges of gold jewelry from its customers and consumers subject to meeting certain conditions.

If these returns and exchanges abnormally exceed the usual levels due to change in the above mentioned factors, this can have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

3. Impact of seasonality on L'azurde Group's revenues:

The jewelry industry is seasonal in nature and the demand for L'azurde Group's products is event driven. As a result, L'azurde Group's sales are subject to seasonal fluctuations. Due to these seasonal factors, comparison of sales and operating results between different periods within a single financial year may not be meaningful and should not be relied upon as indicators of L'azurde Group's annual performance. In addition, this seasonal consumption patterns causes the L'azurde Group's operating results and financial condition to fluctuate from period to period.

4. Impact of gold price fluctuations, on demand levels, on gold jewelry:

Gold prices have significantly fluctuated over the past few years and have at times been volatile. Gold prices may be affected by several factors. Periods of high gold prices or volatile movements in gold prices can significantly impact demand for gold jewelry and, in particular, demand for heavier weight gold jewelry. If L'azurde Group is unable to change its product mix to manufacture and offer lighter weight gold jewelry, or if end-consumers perceive L'azurde Group's gold jewelry to be expensive, this would have a negative effect on purchase orders from L'azurde Group's wholesale customers or impact L'azurde Group's direct sales to end consumers at its own retail outlets, which would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

5. Security, Transport and Fraud Risks:

L'azurde Group operates in a business that is susceptible to theft, and the high value of its inventory makes it even more susceptible. The transportation of L'azurde Group's gold and diamond jewelry products to wholesale customers and its own retail outlets also exposes L'azurde Group to risks. Moreover, any security breach at the Company factory, offices or shops or failure in transport logistics would result in a material loss in inventory and have a material adverse effect on L'azurde Group's business, financial condition, and results of operations or prospects.

6. Ability to Execute the Targeted Business Plan and Growth Strategy:

L'azurde Group's future performance depends on the successful execution of its business plan and growth strategy. Due to the diversity of L'azurde Group's activities and its international geographical spread, its ability to successfully expand to new markets or expand its penetration of already existing markets is dependent on a number of factors, some of which are outside the control of L'azurde Group. There can be no assurance that L'azurde Group will be able to execute its business plan and growth strategy successfully. Any failure to execute L'azurde Group's business plan and growth strategy would have a material adverse effect on its business, financial condition, results of operations or prospects.

7. Operation and Market Risks Associated with International Operations:

L'azurde Group generates substantial revenue outside the Kingdom. It also has foreign manufacturing operations in Egypt and foreign suppliers. As a result, L'azurde Group is subject to the risks of doing business outside the Kingdom, such as potentially adverse tax consequences, including from changes in taxation policies or from inconsistent enforcement; becoming subject to the different, complex and changing laws, regulations and court systems of multiple jurisdictions and compliance with a wide variety of foreign laws, treaties and regulations, including import and export licensing requirements and regulations, as well as unforeseen changes in regulatory requirements, and restrictions on repatriation of the foreign subsidiaries' profits to L'azurde Group. In particular, L'azurde Group's results of operations may be affected positively or negatively by volatility in currency exchange rates and L'azurde Group's ability to effectively manage its currency transaction risks, especially in relation to the Egyptian pound in light of its fluctuation over the past couple of years.

8. Client Credit Risk:

Credit risk is the risk of financial loss due to the non-fulfilment of the obligations of L'azurde Group's wholesale customers. L'azurde Group's credit risk is mainly related to its trade accounts receivable. L'azurde Group does not generally require collateral in support of its trade receivables. There can be no assurance that L'azurde Group may be able to evaluate the current financial condition of its wholesale customers and accurately determine the ability of such parties to fulfil their relevant financial obligations.

May be highly leveraged and subject to their own operating and regulatory risks, which increases the risk that they may default on their obligations to L'azurde Group. The inability or failure of L'azurde Group's significant wholesale customers to meet their obligations to L'azurde Group or their insolvency or liquidation would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects

9. Tax and Zakat Liability:

Oro Egypt was corporate tax-exempt from 1 January 2005 until 31 December 2014 and L'azurde Egypt is corporate tax-exempt from 1 January 2009 until 31 December 2018. Therefore, Oro Egypt and L'azurde Egypt will have to start paying corporate tax starting in 2015 and 2019, respectively.

However, there is no guarantee that the tax laws and regulations in Egypt will not change without prior notice or the tax authorities might challenge the exemptions status of the Egyptian entities and subject them to tax which can have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects. The Company also pays Zakat on behalf of its Shareholders and it has submitted and paid Zakat returns on due times. However, there is still a risk that the DZIT can go back to any historical year and challenge the submitted returns and impose an assessment on the Company and request it to pay additional Zakat liabilities, which would have a material adverse effect on L'azurde Group's business, financial condition, results of operations or prospects.

RISK FACTORS

General risk categories:

The following are some of the general risks that surround the L'azurde business environment:

Business risks	Market risks	Economic and regulatory risks
Unexpected Business Interruption	Fall in demand on Jewelry	Economic and Political Risk
Gold loan Facilities Agreements	Foreign Currency and Risk	Regulatory Risk
Adequacy of Insurance Coverage	Competitive Environment	Labor Force Regulation
Protection of Intellectual Property	Expansion Strategy	
Dependence on "L'azurde" Brand		

b. Business Continuity

The nature of our business demands that we are able to provide rapid recovery of key products, models, designs and after sale services in the event of business interruptions. L'azurde is efficiently using a methodology of Business Continuity Management to counter interruptions to business activities and to protect critical business processes from the effects of major failures or disasters.

So, there are no significant doubts concerning L'azurde and its subsidiaries' ability to continue its operations.

There are no plans or decisions related to restructuring or discontinuance of operations of the Company or its subsidiaries,





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CORPORATE GOVERNANCE

BOARD FORMATION



CORPORATE GOVERNANCE

L'azurde's General Assembly provides for a Board of Directors structure of nine (9) members using accumulated voting method based on pre recommendation of nomination and remuneration committee for term of three years renewable. The General Assembly's rules regarding the appointment, resignation, term of office, powers, remuneration and the principle requirements are summarized below:

The Board of Directors is the supreme management body within the Company and is appointed by the shareholders at the General Assembly in order to represent and protect the Company's interests. The Board is responsible for leading and controlling the Company and discharges this responsibility by approving the implementation of Company strategies and objectives. The Board empowers the management of the Company to run the business within defined parameters and monitors the performance of the Company. While the Board delegates authority to the Company's management, under the direction of the Chief Executive Officer (CEO) to attend to the routine running of the Company's business, the Board retains ultimate fiduciary responsibility to shareholders to ensure the proper operation of the Company. The Board is appointed by the shareholders with primary responsibility for operating the Company in their long term best interests. The Board also has a responsibility to provide clear directions and boundaries for the Company's Executive Management to operate within. This involves setting out a clear vision and strategy for the Company and defining the delegations that will be allowed to management and the policies and boundaries within which they are permitted to operate. This process is achieved by:

- 1. Approving the strategic plans and main objectives of the Company and supervising their implementation. This includes:
- Laying down a comprehensive strategy for the Company, the main work plans, and policy related to risk management, and reviewing and updating such policy.
- Determining the most appropriate capital structure of the Company, its strategies and financial objectives and approving its annual budgets.
- Supervising the main capital expenses of the Company and acquisition or disposal of assets
- Deciding the performance objectives to be achieved, supervising the implementation thereof and overseeing the overall performance of the Company.
- Reviewing and approving the organizational and functional structures of the Company on a periodical basis.
- Laying down rules for internal control systems and supervising those systems. This includes:
- Developing a written policy to regulate conflict of interest and remedy any possible cases of conflict by Members of the Board of Directors, Executive Management and shareholders. This includes misuse of the Company's assets and facilities and arbitrary disposition resulting from dealings with related parties.
- Ensuring the integrity of financial and accounting procedures including procedures related to the preparation of the financial reports.

- Ensuring the implementation of control procedures appropriate for risk management by forecasting the risks that the Company could encounter and disclosing them transparently.
- Annually reviewing the effectiveness of internal control systems
- 3. Drafting a Corporate Governance manual for the Company that does not contradict the provisions of existing laws and regulations, supervising and monitoring in general the effectiveness of the manual and amending it whenever necessary.
- 4. Laying down specific and explicit policies, standards and procedures, for the membership of the Board of Directors and implementing them after they have been approved by the General Assembly.
- 5. Outlining a written policy that regulates the relationship with stakeholders with a view to protecting their respective rights. Such a policy must cover the following:
- Mechanisms for indemnifying the stakeholders in the event that their rights are contravened under the law and their respective contracts.
- Mechanisms for the settlement of complaints or disputes that might arise between the Company and the stakeholders.
- Suitable mechanisms for maintaining good relationships with customers and suppliers and protecting the confidentiality of information related to them.

BOARD OF DIRECTORS

- A code of conduct for the Company's executives and employees compatible with proper professional and ethical standards and regulating their relationship with stakeholders.
- The Board of Directors lays down procedures for supervising this policy and ensuring its compliance.
- The Company's social contributions.
- Deciding on policies and procedures to ensure the Company's compliance with laws and regulations and the Company's obligation to disclose material information to shareholders, creditors and other stakeholders.

Responsibilities of the Board of Directors

The Company is supervised by a Board of Directors consisting of professional and highly experienced persons. The Board of Directors is vested with full powers to manage the business of the Company and supervise its affairs. The Board of Directors delegates responsibility for overall day to day management of the Company to the Company's senior management.

The Board of Directors delegates power to two committees consist of board members both of them report to the Board of Directors, these two committees are the Audit Committee and the NominationNominations and Remuneration Committee (collectively, the "Committees"), and a number of administrative departments with responsibility for dealing with a range of operational and business matters. In addition, the Board of Directors has the power to form any number of committees it considers necessary for effective governance, oversight and operations of the Company or to delegate some of its powers to third parties. In addition to the above permanent Committees, the Board of Directors has formed an Executive Committee advising the Board of Directors in connection with various matters in connection with the L'azurde business and taking some decisions on behalf of L'azurde Groupthe Board based on delegation when required. However, despite any delegation, the ultimate responsibility for the Company rests with the Board of Directors.

Members of the Board of Directors

The Extraordinary General Assembly held on 25/4/2015 re-elected the existing Board of Directors via accumulated voting for three years effective 25/04/2015. The following tables illustrate members' names, position, membership status in other joint stock companies, and attendance of the four Board meetings held during 2016, noting that these meetings were planned and the Chairman has not received any request by two or more of the Board Members to hold emergency meetings during 2016:

THE COMPANY IS
SUPERVISED BY A
BOARD OF DIRECTORS
CONSISTING OF
PROFESSIONAL AND
HIGHLY EXPERIENCED
PERSONS. THE BOARD
HAS A STRONG
DIVERSITY OF SKILLS
AND CAPABILITIES



Company's Board of Directors

The following table sets out the names of the Directors as at December 2016:

Member Name	Position	Nationality	Membership Status	Listed /	Membership of Joint Stock Companies
Mohammed Ebrahim Juma Al Shroogi	Chairman	Bahraini	Non-executive Non-independent	Unlisted -	- Not a board member of any Saudi listed or unlisted Company
James Leonard Tanner	Board Member	British	Non-executive Non-independent	Unlisted	 Investcorp Saudi Arabia – Financial Investments Co. "ISAFIC, investment banking, A Saudi Joint Stock Company, since January 2010 Al Yusr Industrial Contracting Co. Ltd. "AYTB", Industrial Services for Oil and Gas, A closed Joint Stock Company, since December 2013. NDT Corrosion Control Services Company LLC, Industrial, LLC, Since April 2016.
Brian Norman Dickie	Board Member	Irish	Non-executive Non-independent	-	- Not a board member of any Saudi listed or unlisted Company
Abdullah Abdulaziz Saleh Al Othaim	Board Member	Saudi	Non-executive Non-independent	Unlisted	- Abdul-Aziz Saleh Al Othaim and Sons, Investment Holding Compnay, LLC, since August 2012.
Wassim Assem Al Khatib	Board Member	Saudi	Non-executive Non-independent	Unlisted	- Tadrees Holding Company, Education, closed Joint Stock Company, since May 2016.
Hani Ibrahim Ahmed Obaid	Board Member	Saudi	Non-executive Non-independent	-	- Not a board member of any Saudi listed or unlisted Company
Abdul Kareem Assad Abu Alnasr	Board Member	Saudi	Non-executive Independent	Listed	- Yanbu National Petrochemical Co., Petrochemical, listed joint stock company, since March 2014.
				Unlisted	- Saudi Aerospace Engineering Industries, MRO, LLC, Since April 2016.
				Fi	- Abdul Latif Jameel United Finance Co., Finance, Cloed Joint Stock, since January 2015.
Amin Mohamed Akef Al-Maghrabi	Board Member	Saudi	Non-executive Independent	-	- Not a board member of any Saudi listed or unlisted Company
Sabah Khalil Almouyyed	Board Member	Bahraini	Non-executive Independent	-	- Not a board member of any Saudi listed or unlisted Company

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Board meetings register

Meeting of the Board of Directors during 2016

Member Name		Attendance			
	Feb. 3, 2016	May 4, 2016	Sept. 21,2016	Sept. 21,2016 Dec. 13,2016	
Mohammed Ebrahim Juma Al Shroogi	✓	✓	✓	✓	100%
James Leonard Tanner	✓	✓	✓	✓	100%
Brian Norman Dickie	✓	✓	✓	✓	100%
Abdullah Abdulaziz Saleh Al Othaim	✓	✓	✓	✓	100%
Wassim Mohammad Assem Al Khatib	✓	✓	✓	✓	100%
Hani Ibrahim Ahmed Obaid	✓	✓	✓	✓	100%
Abdul Kareem Assad Abu Alnasr	Was not a member	✓	✓	×	66%
Amin Mohamed Akef Al-Maghrabi	Was not a member	✓	✓	×	66%
Sabah Khalil Almouyyed		Was not a m	ember	✓	100%

- 1. Abdul Kareem Assad Abu Alnasr appointed by General Assembly at 1 March 2016.
- 2. Amin Mohamed Akef Al-Maghrabi appointed by General Assembly at 1 March 2016.
- 3. Sabah Khalil Almuayyed appointed by General Assembly at 22 November 2016.

c. Board committees

The Board may at any time establish, by formal resolution, other subcommittees and specify the authorities, objectives and reporting lines of such committees. On an annual basis the Board will review and either ratify or modify the authorities of its subcommittees, to ensure that their delegations remain appropriate.

Executive Committee

Both of Company's by-laws - article (19) and corporate governance manual that give the Board the option to establish an Executive Committee, if it so chooses. Accordingly, the board has formed an Executive Committee on 5 November 2015, The following table illustrates the names, positions and attendance of executive committee members.

Members	Position
Brian Dickie	Chairman of the Executive Committee
James Tanner	Member of the Executive Committee
Abdullah Al Othaim	Member of the Executive Committee
Selim Chidiac	Member of the Executive Committee

Executive committee meetings during 2016

Member Name		Attendance					
	20 January	24 February	26 June	30 June	25 July	20 September	Rate since appointment
Brian Dickie	✓	✓	✓	✓	✓	✓	100%
James Tanner	×	✓	✓	×	✓	✓	67%
Abdullah Al Othaim	✓	×	✓	✓	✓	✓	83%
Selim Chidiac	✓	✓	✓	✓	✓	✓	100%

CORPORATE GOVERNANCE

Without prejudice to the powers reserved to the Board, the Executive Committee shall have all the necessary powers and authorities to undertake the following tasks:

- a. Prepare and recommend to the Board the strategies, future plans, policies, and internal regulations of the Company and its subsidiaries and supervise implementation thereof:
- b. Submit recommendations to the Board in connection with adopting the Group's investment projects and objectives and supervise implementation thereof.
- c. Appoint external parties to provide consultancy services to the Group;
- d. Approve the opening and closure of new retail shops and approve the set-up of new subsidiaries;
- e. Approve capital expenditures not adopted in the Group's annual budget with a value not exceeding five hundred thousand Saudi Riyals (SAR 500,000), for each case, and which total value do not exceed two million Saudi Riyals (SAR 2,000,000) during each financial year; and
- f. Review Company performance at each Executive Committee meeting and assess performance against targets; analyse and make enquiries about underlying factors, trends and major developments and advise management accordingly.

- g. Review Company performance on a monthly basis against agreed objectives and budgets, based on an agreed set of reports to be supplied monthly by Company management and alert management and the board of any significant developments observed. If necessary, request the Company's management to convene an additional committee meeting.
- h. Review, evaluate and make recommendations to the Board on the approval of annual budgets.
- i. Provide advice to the Board on the setting of dividends, taking into account any recommendations made by the Audit Committee in this regard.
- j. Review policies and procedures developed by Executive Management but do not approve anything requiring Board approval. Carry out specific requests from the Board of Directors.
- k. Carry out specific requests from the Board of Directors.

Audit Committee

The board of L'azurde has initiated the composition of the audit committee in 2013. This is a legal requirement as detailed in Article (14) of the Corporate Governance regulation issued by the Capital Market Authority (CMA) Based on board proposal, The Extraordinarily General Meeting of the Shareholders approved the constitution and rules to select the members of the Audit Committee and duration of their membership in accordance with Article (101) of the Companies Law. Shareholders initially approved the structure of the Audit Committee on 22 November 2016.

The Audit Committee undertakes the full roles and responsibilities of an audit committee as recommended by corporate governance regulation as well as oversight of the management of risk within the Company. The Audit committee takes decisions and makes recommendations to the board of directors.

The Audit Committee's main role is to review and monitor the integrity of financial statements, the Company's Internal Control System, Risk management Systems and the appointment and effectiveness of external and internal auditors. The specific terms of reference for the Committee will be determined by the committee from time to time, then agreed by the Board of Directors and finally approved by the General Assembly of Shareholders

The Audit Committee oversees financial risk management and the internal control aspects of the Company's operations with responsibility for, among other things:

- Review L'azurde's interim and annual financial statements and advise the Board on the acceptability thereof.
- Consider and review the scope of work, reports and activities of the external auditor, and comment on their report when appropriate.
- Establish policies as appropriate in regards to the independence of the external auditor and, on the basis of information received from the external auditors and management, form a judgment as to the independence of external auditors.
- Consider the appointment and proposed fees
 of the external auditor and if appropriate
 conduct a tender of the audit. Any subsequent
 recommendation following the tender for the
 appointment of an external auditor will be put
 to the Board and then if a change is approved
 it will be put forward to shareholders for their
 approval.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

- Consider internal control and compliance structures.
- Consider the work plans of Internal Audit, review summary reports of their audits and monitor management's responses.
- Receive from management information as to their processes for the identification, monitoring and management of significant business risks.
- Investigate any activity within its terms of reference or any matters specially requested by the Board.
- Ensure that management uses adequate risk management techniques to mitigate serious risks to the Company.
- Ensure that the Company has adequate systems of internal control in place to safeguard against major losses.
- Periodically review the Company delegation of authority matrix and recommend any enhancements necessary.
- Supervise the activities of the external auditors and approve any activity beyond the scope of the audit work assigned to them during the performance of their duties.
- Review the external auditor's comments on the financial statements and follow up the action taken to address them.
- Review the accounting policies in place and advise the Board of Directors of any recommendation regarding them.

In general, the Committee has the authority to investigate any activity within its terms of reference or any matters specifically requested by the Board. The Committee has unrestricted access to all records and staff of L'azurde (including internal audit) and the external auditors. The Committee is authorized by the board of directors to obtain outside legal or other independent professional advice as necessary to assist the Committee. The Committee shall consider at each meeting whether any failures of risk management, internal control or compliance matters (that are brought to the Committee's attention) are significant and should be immediately reported to the Board. Any suspected serious frauds or irregularities shall be immediately reported by the management to the Head of Internal Audit or the Audit Committee, depending upon their severity.

To ensure the independence of the work of the Audit Committee, each of the head of Internal Audit and the external auditors can communicate directly with the Audit Committee, without any intermediary. The Committee is formed according to the following rules:

• The members of the Audit Committee shall be appointed by a resolution of the General Assembly of Shareholders for a period coinciding with each member's term as Director and may be removed or replaced by the general assembly at any time.

- The committee will comprise a minimum of three (3) members including a specialist in finance and accounting matters.
- Both of the Chairman of the Board and non-executives of board members are not eligible to be a member of the audit committee.
- Committee members should be selected to ensure a range of different backgrounds, skills and experiences and a sound understanding of the industry in which L'azurde operates.
 At least one member should have sound accounting or financial experience.
- Members are appointed for a term determined by the General Assembly up to a maximum of three years and are eligible for reappointment subject to the composition requirements of the Committee.

THE BOARD IS
APPOINTED BY THE
SHAREHOLDERS
WITH PRIMARY
RESPONSIBILITY FOR
OPERATING THE
COMPANY IN THEIR
LONG TERM BEST
INTERESTS

During 2016 the Audit Committee held four meetings. The following table illustrates the names, positions and attendance of committee members.

Members	Position	Note
Wassim Assem Al Khatib	Chairman of the Audit Committee	Re-appointment date 22/11/2016
Brian Dickie	Member of the Audit Committee	Re-appointment date 22/11/2016
Yasser Faisal Al Sherif	Member of the Audit Committee	Resigned on 27/11/2016
Sabah Khalil Almouyyed	Member of the Audit Committee	Appointment date 22/11/2016

Audit committee meetings during 2016

Member Name		Meetings				
	3 February	4 May	21 September	13 December		
Brian Norman Dickie	✓	✓	✓	✓	100%	
Wassim Assem Al Khatib	✓	✓	✓	✓	100%	
Yasser Faisal Al Sherif*	✓	✓	✓	Was not a membe	r 100%	
Sabah Khalil Almouyyed**		Was not a n	nember	✓	100%	

^{*} Yasser Al Sherif, a specialist in financial and accounting matters, resigned on 27 November 2016. **Sabah Khalil Almuayyed appointed by General Assembly at 22 November 2016.

 $On \, 12/3/2017, the \, board \, of \, directors \, has \, reviewed \, and \, has \, approved \, the \, annual \, activities \, report \, for \, The \, Audit \, committee \, and \, its \, recommendations$ during 2016.



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CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The following is summary of audit committee activities during 2016:

Financial Reporting

- Reviewed and approved the consolidated interim financial statements and recommend to the board to approve.
- Reviewed the 2016 Consolidated Financial Statements in conjunction with the External Auditors, Ernst & Young ("EY"). Based on this review and discussions with management, the audit committee was approved the Consolidated Financial Statements were prepared in accordance with applicable accounting standards in Saudi Arabic. The audit committee therefore recommended the Consolidated Financial Statements for the year ended 31 December 2016 to be approved by the Board and General Assembly.
- Reviewed and approved the annual board of directors' report prior to presentation to the Board for approval and subsequent dispatch to the shareholders.
- Reviewed and supervised IFRS conversion plan implementation, according to SOCPA and CMA circular that all listed companies in Saudi Arabia are required to issue their financial reporting according to international financial reporting standards (IFRS) starting from financial year 2017.

- Pursuant to the CMA recommendation and listing rules, the Committee obtained a written assurance letter from Ernst & Young as External Auditors on 12 July 2016 confirming their independence throughout the conduct of their audit engagement in accordance with the terms of all relevant professional and regulatory requirements and they have met the criteria of suitability.
- During the year, the audit committee reviewed EY's consolidated audit scope and non-audit services and approved its fees.
- According to the Companies law and Company's bylaws, the External Auditors shall be appointed annually, provided that it's total appointment shall not exceed five consecutive years. Where EY was appointed for five years up to 2016, the audit committee requested proposals from other audit firms and received several offers. After discussing and meeting with several firms, the audit committee recommended going ahead with Grant Thornton ("GT") Aldar Audit Bureau based on their experience, capabilities and reasonable costs.









POLICIES AND CODE OF GOVERNANCE



Effectiveness of the Company's Internal Control Procedures

The board of Directors is committed to ensuring that the Internal Audit functionally linked to the Audit Committee is one of the necessary tools to control, improve, and supervise performance in order to improve internal policies, practices and corporate governance.

The basic functions of the Board of Directors in internal audit matters include

- Ensure the safety of financial and accounting systems including systems related to the preparation of financial reports.
- Ensure the application of a transparent control system for risk management by selecting the general perception of risks that may face L'azurde and its subsidiaries.
- Audit annual the effectiveness of internal control procedures within L'azurde and its Subsidiaries.

The primary responsibility of the Internal Audit function, conducting risk focused audits, is at least the review of:

- L'azurde's financial reporting (ensuring that significant financial, managerial, and operating information are accurate, reliable, and timely); and
- Compliance with internal policies, international standards, procedures, and applicable laws and regulations

There are a range of responsibilities and reporting lines involved in the efficient running of Risk Management System at L'azurde. The Audit Committee directly supervises the Internal Audit at L'azurde. The Internal Audit Department regularly examines and assesses the efficiency and effectiveness of the Internal Control systems.

The Board of Directors based on the reports and recommendations of the Audit Committee, in line with Business Plans, confirms the following in respect of the year 2016.

- That no matters were brought to the Board's attention that would lead the Board to believe that there was a fundamental lack of safety in financial and accounting systems.
- That the control systems are effectively functioning and facilitating the mitigation of potential risks that L'azurde and its subsidiaries may face; and that no matters relating to the functioning of internal controls were brought to the Board's attention that would require disclosure.
- That all necessary arrangements and corrective actions have been taken on all notes and recommendations raised by Internal and external Audit to the Audit Committee.

Nomination and remuneration Committee

The Nominations & Remuneration Committee was formed on 5 November 2015. The Committee has the role of making recommendations to the Board of Directors on nominations to the Board, developing clear policies for the remuneration of the Board of Directors and Senior Executives of the Company and its subsidiaries, reviewing the structure of the Board of Directors, identifying weaknesses and strengths of the Members of the Board, ensuring the independence of independent members and ensuring the absence of conflicts of interest if members also belong to the Board of Directors of another company. In general, the Committee's role includes the following tasks:

- Review the composition, tenure, performance and membership of the L'azurde Board of Directors and of Board Sub-Committees.
- Make recommendations on new appointments to the Board in order to ensure that the Board comprises individuals best able to discharge the responsibilities of Directors with regard to the law and the highest standards of governance.
- Review and make recommendations to the Board on the remuneration of Directors.
- Review and recommend to the Board, for approval, the overall direction of L'azurde's strategies and policies in respect of remuneration and benefits, recognition of executive employment performance, succession planning and executive development.

THE CONTROL SYSTEMS ARE EFFECTIVELY FUNCTIONING AND FACILITATING THE MITIGATION OF POTENTIAL RISKS THAT L'AZURDE AND ITS SUBSIDIARIES MAY FACE

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CORPORATE GOVERNANCE

POLICIES AND CODE OF GOVERNANCE

- Assess the necessary and desirable competencies of Board members and evaluate the Board's performance. This should include a review, on an annual basis, of the current composition of the Board taking into consideration the independence,, skill, experience and availability of service to the Company of its members and of anticipated needs. The Committee will identify and review with the Board the appropriate skills and characteristics required of the Directors.
- Specifically ensure that all nominees for appointment as a Director are free of any prior conviction for fraudulent or criminal acts.
- Review and make recommendations to the Board on the appointment and removal of Directors, taking into account the Company's Director Nomination procedures and the remuneration of Directors.

- Ensure adequate orientation and training for new Directors about the affairs and business of the Company to allow them to properly discharge their duties.
- Review and make recommendations to the Board on remuneration including short and long term incentives for the CEO and associated performance targets.
- Review and approve recommendations from the CEO on the remuneration of Senior Executives reporting to the CEO.
- Review performance targets for Senior Executives reporting to the CEO.
- Review human resource and remuneration policies and practices for the Company, as brought forward by the CEO and where appropriate recommend adoption by the Board.
- Review management succession planning for the Company in general but specifically with regard to the Board, CEO and Senior Executives reporting to the CEO.

- Review and approve recommendations from the CEO on the appointment and termination of senior executive positions reporting to the CEO, with the exception of the CFO and Company Secretary, whose appointment or termination must be approved by the Board, and the Head of Internal Audit, whose termination must be approved by the Audit Committee.
- Annually confirm the continuing independence of Independent Members of the Board.
- Annually confirm that Directors do not have a conflict of interest by virtue of directorships that they hold in other companies.
- Review the structure of the Board of Directors and recommend changes.

During 2016 the Nomination & Remuneration Committee held (7) meetings. The below table illustrates the names, positions, and attendance of the committee members:

Members	Position
Brian Dickie	Chairman of the Nomination and Remuneration Committee
Wassim Assem Al Khatib	Member of the Nomination and Remuneration Committee
Abdullah Al-Othaim	Member of the Nomination and Remuneration Committee
Abdul Kareem Abu Al Nasr	Member of the Nomination and Remuneration Committee

Nomination & Remuneration committee meetings during 2016

Members	Meetings			Attendance				
	3 February	9 February	14 April	4 May	25 July	20 September	13 December	Rate since appointment
Brian Norman Dickie	✓	✓	✓	✓	✓	✓	✓	100%
Wassim Assem Al Khatib	✓	X	✓	✓	✓	✓	✓	86%
Abdullah Al-Othaim	✓	✓	✓	✓	✓	✓	✓	100%
Abdul Kareem Abu Al Nasr*		Was not a member ✓			✓	100%		

^{*} Abdul Kareem Assad Abu Alnasr appointed as a member of nomination and remuneration committee at 20/9/2016

On 12/3/2017, the board of directors has reviewed and has approved the annual activities report for the Nominations and Remuneration Committee and its recommendations during 2016.

Board members and executives compensations

Members of the Board of Directors do not receive any remuneration for their role in managing the Company unless approved by the General Assembly.

Independents Directors receive a fixed remuneration based on the appointment agreement after the general assembly approval to maintain their independence as recommended by CMA Guidance regarding corporate governance implementation where independent director remuneration should not link to Company profit.

The most Senior Executives, including the Chief Executive Officer and the Chief Financial Officer, receive remuneration according to their employment contracts. The following table illustrates details of remuneration and compensation paid to Directors and Senior Executives:

Paid to Directors and Senior Executives During 2016:

	Board of Directors			Highest Paid Five / Including CEO and CFO		
		Saudi Riyal				
	Mr. Brian Dickie Non-Executive Board Member	Independent Board Member	2015	2016	2015	2016
Salaries and Compensation	200,000	477,466	-	677,466	5,396,172	5,396,172
Allowances	89,124	52,500	-	141,624	2,090,844	2,090,844
Annual and Periodic Bonuses	-	-	-	-	3,795,665	1,518,266
Consultancy Services	251,250	-	-	251,250	-	-
Total	540,374	529,966	-	1,070,340	11,282,681	9,005,282

Except above mentioned the company has not paid any compensations to rest of non-executive board member.

There are no arrangements or agreements under which a director or a senior executive of the company has waived any salary or compensation.

POLICIES AND CODE OF GOVERNANCE

Board members and executives ownership

The following tables illustrate shares held by Board Members, their spouses and minors and any changes which have occurred during 2016. Note that none of them have any interest in debt instruments issued by L'azurde and there were no arrangements or agreements by which any of the Board Members waived any salary or compensation.

Member Name	Note	Listing Date	Change	End of the year	Percentage
Abdullah Abdulaziz Saleh Al Othaim	Personal ownership	1000	334,035	335,035	0.78%

There is an internal system to notify and improve the board members awareness regarding any direct or indirect trading in L'azurde's shares based on internal information. The internal audit and compliance section on regular basis sends alerts and notifications to board members regarding the rules of trading in company securities and restricted periods as per article (50) of listing rules.

Ownership of Senior Managers, Spouses & Minors

None of the senior managers, Spouses and minors has any interest in L'azurde issued shares. According to the internal policy "dealing in L'azurde securities" all employees and their family are a restricted persons, must not trade in L'azurde securities based on internal information whether by themselves, through any member of their family, or other related party over which they have influence or control.

Related Party Transactions

Related parties include major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influenced by such parties.

L'azurde Corporate Governance manual guards against conflicts of interest and remedies potential conflict situations for Directors, executives and shareholders. The General Assembly shall be notified of any conflict of interest where request of approval should be raised.

During the course of its operations in 2016, L'azurde had only one related party transaction with a member of the board of directors, consisting of a consultancy agreement with Mr. Brian Dickie, a non-executive board member with total paid fee during 2016 amounting to SAR 251,250 (included in the Board compensation section). The main scope of work is to advise the CEO and senior management of the Company on the Company strategies, financial performance and operations. This agreement is subject to annual review and approval by the shareholders general assembly.

Following is the details of the related party balances as at end of the year and the related party transactions during the year:

Related Party	Nature of transactions	Amount of transactions		Balances	
		2015	2016	2015	2016
L'azurde Holding Company	Costs recharged and amounts collected by the Company	-	208,000	-	-
	Amount deducted by the Company from employees on behalf of the Parent Company relating to the incentive plan	2,827,551	(2,827,551)	2,827,551	-
Gulf Fifth Gemstone Saudi Company	Costs recharged and amounts collected by the Company	-	343,312	-	-
Board of Directors	Remuneration		819,090		315,990
	Consultancy fee		251,250		125,625

Disclosure & Transparency Policy

L'azurde seeks to provide accurate, regularly updated information to all its stakeholders and other interested parties. This Policy reflects the L'azurde current activities and will be updated as and when those activities change.

L'azurde publishes and regularly updates information about its corporate structure and operations, partners, investments and other commercial activities and performance related information. As a publicly listed company, L'azurde also recognizes its obligation to respond appropriately to legitimate questions from investors, consumers, customers, government, the media and other stakeholders.

Information disclosed by L'azurde under this Policy is available on various websites including the Company's website (http://www.lazurde.com) and the Saudi Stock Exchange (Tadawul) website (www.tadawul.com.sa).

The following information is updated and published annually or as required by the law and relevant rules and regulations. This is not an exhaustive list other useful information is also disclosed as required:

- Board Members
- Board Committee Membership
- Board Reports
- Ouarterly Reports and Financial Statements
- Annual Reports and Financial Statements
- · Accounting Policies
- Related Party Transactions
- Review of Principle Activities
- Auditors Report

In the following circumstances, L'azurde will not routinely publish information:

- Where disclosure would, or would be likely to, prejudice the commercial interests of L'azurde, its business partners or other third parties, and where the public interest in disclosure does not outweigh the public interest in maintaining the exemption.
- When information has been given to L'azurde in confidence, and where disclosure could give rise to an action for breach of confidence.
- Personal information about L'azurde employees, Board members or other individuals where to do so may be in breach of data protection principles.
- Where disclosure would, or would be likely to, prejudice the investigation, prevention or detection of crime, or the administration of justice.
- When information is subject to legal privilege

Board declarations

The Board of Directors has taken care to ensure the professional performance of the Company during 2016, and certifies the following:

- There are no equity shares or debt instruments belonging to subsidiaries.
- There were no convertible debt instruments or any securities or contractual rights of initial public offering or similar rights issued or granted by L'azurde during 2016, and there was no compensation obtained by L'azurde in return.
- There were no rights of conversion or initial public offering under convertible debt instruments or any securities or contractual rights of initial public offering or similar rights issued or granted by L'azurde during 2016.

- No redemption, purchase, or cancellation by L'azurde or any of its Subsidiaries of any redemption of debt instruments occurred during 2016.
- There were no substantial operational conflicts of interest during 2016, other than what has been disclosed.
- We did not receive a request from the External Auditors to call a meeting of the General Assembly during 2016.
- We did not receive a request from shareholders owning 5% or more of the Company's share capital to call a meeting of the General Assembly during 2016.
- There was no procedure that might lead to obstruction of the shareholders' rights of voting.
- There were no significant events affecting the integrity of the financial position of the Company after the Financial Year 2016 requiring disclosure, other than information that is available and declared.
- The Company did not provide loans or credit facilities to any member of the Board of Directors.
- Proper books of account have been maintained.
- The System of Internal Control is sound and has been effectively implemented.
- There are no significant doubts concerning L'azurde ability to continue as a going concern.
- All published information by the company whether directly or indirectly is accurate and true statement of material fact or a statement of opinion not for the purpose of influencing the share price.

POLICIES AND CODE OF GOVERNANCE

Corporate Governance Manual

The purpose of this code is to set out L'azurde approach to corporate governance. L'azurde is committed to maintaining high standards of corporate governance and considers good corporate governance as an essential tool for maximizing long term shareholders value and consistency with its commitment to quality in all of its processes and products. The rules set out in the Company's corporate governance manual are mandatory for all directors and staff of L'azurde, and can only be amended by a resolution of the Board of Directors.

Corporate Governance is defined as "the system by which business corporate are directed and controlled" The corporate Governance structure specifies the distribution of authorities and responsibilities among different participants in in the Company, such as the Board, managers, shareholders and other, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provide a structure through which the Company's objective are set and the means of attaining these objectives and monitoring performance. The board of directors is responsible for L'azurde Corporate Governance Manual.

The shareholders role in governance is to appoint the directors, audit committee and auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibility of the Board include setting the Company strategy aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship and according to companies' law and corporate governance regulation issued by CMA.

The Board's actions are subject to laws, regulations and shareholders in the General Assembly Meeting. L'azurde Corporate Governance Manual has been prepared according to corporate governance regulation issued by CMA and international principles of corporate governance, and should be viewed as setting the framework for corporate governance within the Company. It should be viewed within the context of the broader legislative framework of Saudi Arabia. In particular, the stipulation of the following, the requirements of which have not all been incorporated in this manual, need to be borne in mind when considering corporate governance issues:

- The requirement of The Capital Market Authority (CMA) of Saudi Arabia and Saudi Stock Market "Tadawul".
- The Companies Law of Saudi Arabia and associated ministerial directives of the Ministry of Commerce and Investment.
- L'azurde Bylaws

The Board of Directors will approve amendments to the Corporate Governance framework from time to time to comply with changing legal and business requirements, consistent with ensuring sound management and governance practices.

The L'azurde Corporate Governance manual incorporates the entire corporate governance Code issued by the CMA, except paragraph 'D' (Article 6), which stipulates that "investors who are judicial persons and act on behalf of others-e.g., investment funds - shall disclose in their annual reports their voting policies, actual voting and ways of dealing with any material conflict of interest that may affect the practice of the fundamental rights in relation to their investments. The reason for not including this clause in the company's governance policy is that L'azurde does not have the legal identity to bind investors or persons with legal status who are acting on behalf of others such as investment funds to disclose their voting policy.

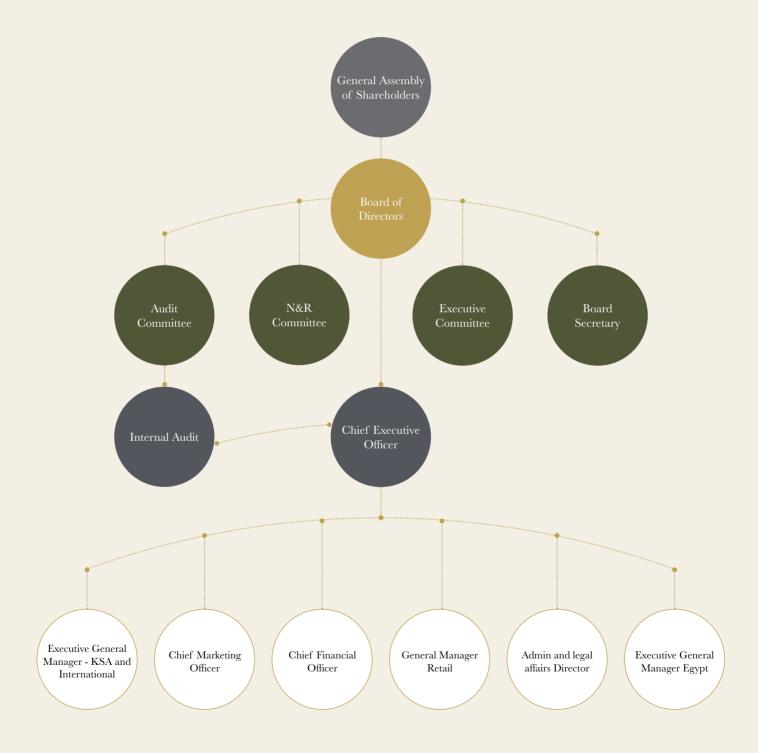
Shareholders rights and communication methods

a. Rights of Shareholders and General Assembly

L'azurde by-laws and Corporate Governance manual ensure that shareholders enjoy all rights related to shares, in particular the right of receiving a share of approved dividends payments, the right to receive a share of the Company assets upon liquidation, the right to attend Shareholders' General Assembly meetings (participate in their deliberations and vote on their decisions), the right of share disposal, the right to oversee the work of the Board of Directors, file responsibility litigation against the Board members, and the right to inquire and request information as long as it does not compromise the interest of the Company and does not conflict with the Terms and Executive regulations of the Capital market authority.

L'azurde allows the maximum participation of its shareholders in General Assembly meetings and is keen to ensure that the choice of time and venue enable full participation.

L'azurde by-laws and Corporate Governance manual also provide provision related to the Shareholders General Assembly, which include procedures and precaution necessary to ensure that all Shareholders are exercising their regular rights. The Shareholders' General Assembly is the highest power in the Company with sole authorities including the appointment and termination of Board Members, approval of the Consolidated Financial Statements, appointment of the external auditors and determine their fees, approve dividends distribution as recommended by the Board of Directors, increases or decreases the Capital of the Company and the amendment of by-laws and Article of Association. L'azurde provides sufficient access for its shareholders to read the minutes of The General Assembly meeting through uploading t L'azurde website, and provides the Capital Market Authority with a copy of the minutes within (10) days of the date of the meeting.



COMMUNICATION WITH SHAREHOLDERS



b. Methods of communication with our shareholders

L'azurde is committed to promoting effective and open communication with all shareholders, ensuring consistency and clarity of disclosure at all times. We aim to engage with our shareholders transparently and regularly in order to facilitate a mutual understanding of our respective objectives. We strive to be accessible to both institutional and private investors, and proactively encourage all shareholders to participate at our Annual General Meeting (AGM).

As part of our transformation into a listed Company, on 29 June 2016, the first day of trading, we committed to providing greater disclosure and transparency in our financial reporting, with the aim of being industry leaders.

We aim to deliver all financial and strategic communications in a consistent and open way, ensuring wherever possible, the use of both languages Arabic and English to make such disclosures easily intelligible and in order to present a fair, balanced and understandable assessment of the company's position and prospects.

We welcome feedback and suggestions for improvement, which can be submitted to Investor Relations at the email address: investors@lazurde.com.

All financial reports and regulatory announcements as well as associated materials including management presentations and transcripts are made available on our website lazurde.com on a timely basis for all investors to access.

We understand the importance of communicating effectively with shareholders and are committed to the constructive use of the AGM for the Board, Chairman and Directors to meet with shareholders, hear their views and to answer their questions.

We proactively encourage shareholders participation in the AGM, both by attending the meeting and voting, either in person or by proxy.

We aim to balance investors' engagement throughout the year, providing the opportunity for frequent interaction with investors through a variety of forums including meetings, quarterly conference calls, investor conferences and management presentations.

In 2016, the management of the Company held two conferences calls to explain third and fourth quarters' results to shareholders, investors and analysts. Invitations for the two conferences calls were published on websites of Tadawul and L'azurde and Argaam. To maximize the attendance, an invitation has been sent by email to major analysts in MENA region.

On 20 October 2016, the Company management held a first time ever analysts meeting at the L'azurde Headquarters to explain and cover the third quarter results.



WE AIM TO
ENGAGE WITH OUR
SHAREHOLDERS
TRANSPARENTLY
AND REGULARLY.
WE STRIVE TO BE
ACCESSIBLE TO BOTH
INSTITUTIONAL AND
PRIVATE INVESTORS,
AND PROACTIVELY
ENCOURAGE ALL
SHAREHOLDERS TO
PARTICIPATE AT OUR
ANNUAL GENERAL
MEETING (AGM).

COMMUNICATION WITH SHAREHOLDERS

Important dates

Tadawul Announcements

L'azurde had a busy six months since the listing at June 29, 2016, with a number of events and strategic activities announced to shareholders in the course of the year. The most important events, activities and strategic decisions were announced on the official website of the Saudi Stock Exchange (Tadawul) and L'azurde's corporate website. In total, twelve announcements were made to L'azurde's shareholders within seven months since the listing date. The following table summarizes those announcements by date, type and subject:

Announcements on Tadawul website

No	Date	Announcement Type	Title of Announcement
1	21/7/2016	Notice to Shareholders	L'azurde announces opening of nominations for membership to the Board of Directors for the vacant independent board seat
2	27/7/2016	Financial Results	L'azurde Company for Jewelry announces the interim financial results for the period ending on 30-06-2016 (Six Months)
3	30/8/2016	Notice to Shareholders	L'azurde Company for Jewelry announces its transition plan for the implementation of International Financial Reporting Standards (IFRS)
4	16/10/2016	Notice to Shareholders	L'azurde announces the launch of 14 karat Gold Jewelry in the Middle East.
5	19/10/2016	Financial Results	L'azurde Company for Jewelry announces the interim financial results for the period ending on 30-09-2016 (Nine Months)
6	24/10/2016	Invitation to AGM	L'azurde Company for Jewelry invites its shareholders to attend the Extraordinary general assembly Meeting
7	26/10/2016	Addendum Announcement	Addendum announcement from L'azurde Company for Jewelry related to its transition plan to implement International Financial Reporting Standards (IFRS) - Phase Two
8	09/11/2016	Notice to Shareholders	L'azurde Company for Jewelry announces the expected financial impact from the flotation of the Egyptian Pound against foreign currencies
9	23/11/2016	Results of AGM	L'azurde Company for Jewelry announces the results of shareholder Extraordinary general assembly meeting
10	18/1/2017	Financial Results	L'azurde Company for Jewelry announces the interim financial results for the period ending on 31-12-2016 (Twelve Months)
11	18/1/2017	Notice to Shareholders	L'azurde announces the launch of a Franchise Brand, Amazing Jewelry in the MENA region
12	26/1/2017	Notice to Shareholders	L'azurde Company announcement of its transition plan to implement International Financial Reporting Standards (IFRS) - Phase Three
13	23/2/2017	Notice to Shareholders	L'azurde announces resignation of a Member of the Board of Directors and the appointment of another Member.

Recommendations to the General Assembly

We are pleased, after reviewing the most important operational and financial activities for the financial year 2016, to attach the consolidated Financial Statements with the Auditors' Report. We recommend that the General Assembly approves the Board of Directors Report, the Consolidated Financial Statements and the Auditors' Report. The place and time of the General assembly Meeting and any other items on the Agenda will be announced at a later date.

