

L'azurde Company for Jewelry and Its Subsidiaries
(Saudi Joint Stock Company)
Consolidated FINANCIAL STATEMENTS
31 DECEMBER 2014



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AUDITORS' REPORT TO THE SHAREHOLDERS OF L'AZURDE COMPANY FOR JEWELRY (Saudi Joint Stock Company)

Scope of Audit

We have audited the accompanying consolidated balance sheet of L'azurde Company for Jewelry - Saudi Joint Stock Company - (the "Company"), and its subsidiaries (the "Group") as at 31 December 2014 and the related consolidated statements of income, cash flows and changes in the shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with article 123 of the Regulations for Companies and submitted to us together with all the information and explanations, which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified Opinion

In our opinion, the consolidated financial statements taken as a whole:

- i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014 and its results of operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) Comply with the requirements of the Regulations for Companies and the Company's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Fahad M. Al-Toaimi
Certified Public Accountant
Registration No. 354



Riyadh: 15 Rabi Al-Thani 1436H
(4 February 2015)

L'azurde Company for Jewelry and Its Subsidiaries
(Saudi Joint Stock Company)
CONSOLIDATED BALANCE SHEET
As at 31 December 2014

	Note	2014 SR	2013 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	62,554,885	134,421,715
Short-term deposits		-	11,000,000
Margin deposits	5	221,063,348	117,526,546
Accounts receivable	6	297,279,392	173,837,362
Inventories	7	977,530,359	849,420,752
Prepayments and other receivables	8	30,502,895	37,479,483
TOTAL CURRENT ASSETS		1,588,930,879	1,323,685,858
NON-CURRENT ASSETS			
Property, plant and equipment	9	65,669,260	65,580,340
Intangible assets	10	299,999	299,999
TOTAL NON-CURRENT ASSETS		65,969,259	65,880,339
TOTAL ASSETS		1,654,900,138	1,389,566,197
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable, accrued expenses and other liabilities	11	79,996,105	71,963,964
Short-term loans	12	1,049,615,311	816,035,961
Zakat	13	13,152,593	11,532,302
TOTAL CURRENT LIABILITIES		1,142,764,009	899,532,227
NON-CURRENT LIABILITIES			
Employees' terminal benefits	14	28,938,869	23,739,718
TOTAL LIABILITIES		1,171,702,878	923,271,945
SHAREHOLDERS' EQUITY			
Share capital	15	300,000,000	300,000,000
Statutory reserve	16	52,509,121	43,880,067
Retained earnings		151,709,362	136,874,934
Foreign currency translation adjustments		(21,021,223)	(14,460,749)
TOTAL SHAREHOLDERS' EQUITY		483,197,260	466,294,252
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,654,900,138	1,389,566,197

The consolidated financial statements have been approved by the Board of Directors on 4 February 2015 and signed on their behalf by:

Selim Chidiac
Chief Executive Officer

Ayman Gamil
Chief Financial Officer

The attached notes 1 to 28 form an integral part of these consolidated financial statements.

L'azurde Company for Jewelry and Its Subsidiaries
(Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2014

	Note	2014 SR	2013 SR
Revenue:			
Gold		2,265,448,465	2,455,647,299
Operations		494,063,031	471,646,842
		2,759,511,496	2,927,294,141
Cost of Sales:		(2,265,448,465)	(2,455,647,299)
Gold		(192,880,192)	(200,653,760)
Operations		(2,458,328,657)	(2,656,301,059)
GROSS PROFIT		301,182,839	270,993,082
EXPENSES			
Selling and marketing	17	(121,564,285)	(111,798,595)
General and administration	18	(48,990,507)	(41,281,097)
		(170,554,792)	(153,079,692)
INCOME FROM MAIN OPERATIONS		130,628,047	117,913,390
Financial charges		(27,964,164)	(30,191,274)
Other expenses, net	19	(3,132,931)	(1,633,893)
NET INCOME BEFORE ZAKAT		99,530,952	86,088,223
Zakat	13	(13,240,413)	(11,910,249)
NET INCOME FOR THE YEAR		86,290,539	74,177,974
Earnings per share			
Attributable to income from main operations	20	4.35	3.93
Attributable to net income	20	2.88	2.47

The attached notes 1 to 28 form an integral part of these consolidated financial statements.

L'azurde Company for Jewelry and Its Subsidiaries
(Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

	2014 SR	2013 SR
OPERATING ACTIVITIES		
Income before zakat	99,530,952	86,088,223
Adjustments for:		
Depreciation	9,930,262	11,676,625
Employees' terminal benefits expense	6,551,641	4,919,618
(Gain)/loss on disposal of property, plant and equipment	(77,646)	1,893,171
Loss on disposal of intangible assets	-	57,426
Impairment of prepayments	2,014,714	-
Melting costs and charge for slow moving inventory items	10,868,492	9,845,473
Doubtful debts (reversal)/expense	(1,551,841)	8,613,321
	127,266,574	123,093,857
Changes in operating assets and liabilities:		
Accounts receivable	(121,890,189)	6,121,020
Inventories	(138,978,099)	61,220,321
Prepayments and other receivables	4,961,874	(4,078,673)
Accounts payable, accrued expenses and other liabilities	8,032,141	16,426,589
Proceeds of short-term gold loans, net	233,579,350	9,716,591
Cash from operations	112,971,651	212,499,705
Changes in Margin deposits	(103,536,802)	(28,812,617)
Zakat paid	(11,620,122)	(10,294,713)
Employees' terminal benefits paid	(1,352,490)	(1,786,355)
Net cash (outflow)/inflow from operating activities	(3,537,763)	171,606,020
INVESTING ACTIVITIES		
Short-term deposits	11,000,000	(11,000,000)
Purchase of property, plant and equipment	(11,374,391)	(17,773,479)
Proceeds from disposal of property, plant and equipment	1,432,855	2,906,770
Net cash generated from/(used in) investing activities	1,058,464	(25,866,709)
FINANCING ACTIVITIES		
Dividends paid	(62,827,057)	-
Foreign currency translation adjustments, net	(6,560,474)	(6,059,083)
Repayment of short-term cash loans, net	-	(17,000,000)
Net cash used in financing activities	(69,387,531)	(23,059,083)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(71,866,830)	122,680,228
Cash and cash equivalents at the beginning of the year	134,421,715	11,741,487
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	62,554,885	134,421,715

The attached notes 1 to 28 form an integral part of these consolidated financial statements.

L'azurde Company for Jewelry and Its Subsidiaries
(Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2014

	Share capital SR	Statutory reserve SR	Retained earnings SR	Foreign currency translation adjustments SR	Total SR
Balance at 31 December 2012	300,000,000	36,462,270	70,114,757	(8,401,666)	398,175,361
Net income for the year	-	-	74,177,974	-	74,177,974
Transferred to statutory reserve	-	7,417,797	(7,417,797)	-	-
Foreign currency translation adjustments	-	-	-	(6,059,083)	(6,059,083)
Balance at 31 December 2013	300,000,000	43,880,067	136,874,934	(14,460,749)	466,294,252
Net income for the year	-	-	86,290,539	-	86,290,539
Transferred to statutory reserve	-	8,629,054	(8,629,054)	-	-
Dividends paid (note 24)	-	-	(62,827,057)	-	(62,827,057)
Foreign currency translation adjustments	-	-	-	(6,560,474)	(6,560,474)
Balance at 31 December 2014	300,000,000	52,509,121	151,709,362	(21,021,223)	483,197,260

The attached notes 1 to 28 form an integral part of these consolidated financial statements.

L'azurde Company for Jewelry and Its Subsidiaries
(Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2014

1. ACTIVITIES

L'azurde Company for Jewelry (the "Company") is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010221531 date 26 Jumad Thani 1427H, (corresponding to 22 July 2006). The Company is engaged in the production, manufacturing, forming and forging golden wares, jewelry, and precious stones and golden alloys, in accordance with the ministerial resolution number 1354/S dated 21 April 2008 corresponding to 15 Rabi Thani 1429H. The Company is also engaged in distribution of glasses, watches, accessories, pens, perfumes, leather products and export of gold wares, alloys and silver.

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

The Company effectively owns and controls the following subsidiaries:

Subsidiary company	Direct and indirect shareholding %	Principal field of activities	Commercial registration number	Country of incorporation
ORO Egypt Company	100	Gold production and trading	7877	Arab Republic of Egypt
L'azurde Company for Jewellery (formerly International Company for Jewelry Manufacturing)	100	Gold production and trading	14997	Arab Republic of Egypt
L'azurde Company for Jewelry LLC	100	Gold trading	1039193	United Arab Emirates
L'azurde Jewellery LLC	100	Gold trading	1060233	United Arab Emirates
L'azurde Company for Jewellery LLC	98	Gold trading	60716	State of Qatar

2. BASIS OF CONSOLIDATION

These consolidated financial statements include the assets and liabilities and the results of operations of the Company and its subsidiaries (the "Group") listed in note 1 above.

A subsidiary company is that in which the Company has, directly or indirectly, long-term investment comprising an interest of more than 50% in the voting capital and/or over which it exerts practical control. A subsidiary is consolidated from the date on which the Company obtains control till the date that control ceases.

Subsidiaries' financial statements for the same period are prepared using accounting policies consistent with those used by the Company.

Minority interests represent the portion of profit or loss and net assets that are not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from parent shareholders' equity, if material.

All significant inter-company transactions have been eliminated on consolidation.

L'azurde Company for Jewelry and Its Subsidiaries
(Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at market price of gold asset and liability accounts.

Use of estimate

The preparation of financial statements in conformity with generally accepted accounting principles by management requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The actual results ultimately may differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents consists of bank balances, cash on hand and investments that are readily convertible into known amounts of cash and have maturity of three months or less when placed.

Accounts receivable

Accounts receivable are stated at original invoice amount or gold quantity less a provision for any uncollectible amounts. When collected, accounts receivable are settled in cash or gold. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Property, plant and equipment

Freehold land is not depreciated. The cost less estimated residual value of other property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.

Leasehold improvements are amortised on a straight-line basis over the shorter of the useful life of the improvements, or the term of the lease.

Expenditure for repair and maintenance are charged to the income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

Intangible assets

Intangible assets with identified or identifiable useful life are amortised on straight line basis over the shorter of their useful life or statutory life. Intangible assets with infinite lives are assessed for impairment annually and whenever there is an indication that the assets may be impaired.

Impairment of non-current assets

The Group periodically reviews the carrying amounts of their non-current tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which that asset belongs.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash generating unit in prior periods. A reversal of an impairment loss is recognised as income immediately.

L'azurde Company for Jewelry and Its Subsidiaries
(Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

Inventories

Inventory consists of gold and other items. Gold is valued at market price. Other inventory items are stated at the lower of cost and market value. The cost of other inventory items is determined as follows:

Raw material, consumables and other

manufacturing material	-	purchase cost on weighted average basis.
Work in progress and finished goods	-	cost of direct material, labor and overheads based on a normal level of activity.
Re-sellable goods	-	specific identification basis.

Appropriate provisions are made for slow moving inventories. An appropriate provision is also made to cover the expected melting costs of all non-sellable inventory items that would be melted to be used again in production. It is the Group's policy to charge such provisions under cost of sales in the consolidated statement of income.

Zakat and income tax

Zakat is provided for on behalf of the Company and its effectively wholly owned subsidiaries in accordance with the Saudi Arabian fiscal regulations. The foreign subsidiaries provide for income tax liabilities, if any, in accordance with tax regulations of the country in which they operate. Zakat and income tax provisions are charged to the consolidated statement of income.

Operating leases

Operating leases payments are recognised as expense in the consolidated statement of income on a straight line basis over the lease term.

Employees' terminal benefits

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

Dividends

Final dividends are recorded as liabilities at the time of their approval by the Shareholders' General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

Revenue recognition

Sales are recognised when goods are invoiced (at the then gold market prices) and delivered to customers.

Other income is recognised when earned.

Expenses

Selling and marketing expenses are those that specifically relate to salesmen, warehousing and delivery vehicles as well as doubtful debt expense. All other expenses are classified as general and administration expenses.

L'azurde Company for Jewelry and Its Subsidiaries
(Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Gold revaluation

Transactions denominated in gold are recorded in Saudi Riyals at the relevant market rates prevailing at the time of the respective transactions. Asset and liability balances denominated in gold are revalued at the market price ruling at the consolidated balance sheet date. Realised gains and losses and unrealised losses from revaluation of gold related items are recognised in the consolidated statement of income. Unrealised gain from gold revaluation is deferred until it is realised in the subsequent periods.

Foreign currency

Transactions

Transactions in foreign currencies are translated into Saudi Riyals at the relevant exchange rates prevailing at the time of the respective transactions. Assets and liabilities in foreign currency at the consolidated financial statements date are translated into Saudi Riyals exchange rates prevailing at that date. Realised and unrealised exchange differences on foreign currencies are recognised in the consolidated statement of income.

Foreign operations translations

Financial statements of the foreign subsidiaries are translated into Saudi Riyals using the exchange rates at each balance sheet date, for assets and liabilities, and the average exchange rates for each period for revenues, expenses, gains and losses. Components of equity, other than retained earnings, are translated at the rates ruling at the date of occurrence of each component. Foreign currency translation adjustments, if material, are recorded as a separate component of the shareholders' equity.

Segmental reporting

A segment is a distinguishable component of the Group whether in producing/selling products and services (business segment), or in providing/selling products or services within a particular economic environment (geographical segment), which is subject to the risks and rewards that are different from those of other segments.

4. CASH AND CASH EQUIVALENTS

	2014	2013
	SR	SR
Cash in hand and bank balances	33,712,261	29,421,715
Short-term deposits	28,842,624	105,000,000
	62,554,885	134,421,715

5. MARGIN DEPOSITS

These comprise deposits with several banks and are held as margin deposits (restricted) against short-term gold loans granted to the Company by certain banks (note 12).

L'azurde Company for Jewelry and Its Subsidiaries
(Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
31 December 2014

6. ACCOUNTS RECEIVABLE

	2014	2013
	SR	SR
Trade receivables	310,026,300	187,334,165
Less: provision for doubtful debts	(12,746,908)	(13,496,803)
	297,279,392	173,837,362

7. INVENTORIES

By component:

	2014	2013
	SR	SR
Gold on hand, on consignment and in banks	837,366,591	703,374,230
Diamonds, stones and pearls	139,238,323	138,767,878
Materials and accessories	15,684,196	16,185,337
	992,289,110	858,327,445
Less: provision for melting costs and slow moving inventory items	(14,758,751)	(8,906,693)
	977,530,359	849,420,752

By stage of completion:

	2014	2013
	SR	SR
Finished goods	621,209,346	521,895,341
Raw material	368,670,844	333,029,054
Work in progress	2,408,920	3,403,050
	992,289,110	858,327,445
Less: provision for melting costs and slow moving inventory items	(14,758,751)	(8,906,693)
	977,530,359	849,420,752

Gold inventory is pledged as a guarantee for gold loans granted to the Company by certain banks (note 12).

When non-gold inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

L'azurde Company for Jewelry and Its Subsidiaries
(Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
31 December 2014

8. PREPAYMENTS AND OTHER RECEIVABLES

	2014	2013
	SR	SR
Advances to suppliers	10,283,053	14,549,938
Prepayments	14,806,864	17,219,706
Advances to employees	2,682,702	2,876,448
Accrued income	138,729	420,607
Other receivables	2,591,547	2,412,784
	30,502,895	37,479,483

9. PROPERTY, PLANT AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are based on the following rates:

Buildings	2%	Office equipment	15% to 50%
Machinery and equipment	10%	Tools, dies and other assets	15% to 25%
Furniture and fixtures	15%	Leasehold improvements	Useful life of the improvements or the term of the lease, whichever is shorter
Motor vehicles	25%		

L'azurde Company for Jewelry and Its Subsidiaries
(Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2014

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land SR	Buildings SR	Machinery and equipment SR	Furniture and fixtures SR	Motor vehicles SR	Office equipment SR	Tools, dies and other assets SR	Leasehold improvements SR	Total 2014 SR	Total 2013 SR
Cost:										
At the beginning of the year	640,177	76,633,287	69,200,083	21,291,477	9,857,320	25,332,383	12,702,142	16,770,888	232,427,757	225,550,360
Reclassifications	-	-	-	-	-	(218,511)	218,511	-	-	-
Additions	-	152,493	4,944,390	432,960	891,026	1,351,123	961,184	2,641,215	11,374,391	17,773,479
Disposals	-	(512,727)	(2,354,948)	(195,609)	(1,258,997)	(130,688)	-	(6,126,326)	(10,579,295)	(10,896,082)
At the end of the year	640,177	76,273,053	71,789,525	21,528,828	9,489,349	26,334,307	13,881,837	13,285,777	233,222,853	232,427,757
Depreciation:										
At the beginning of the year	-	37,115,951	63,133,970	19,705,898	6,816,432	20,100,087	10,725,556	9,249,523	166,847,417	161,266,933
Reclassifications	-	-	-	-	-	(17,497)	17,497	-	-	-
Charge for the year	-	1,787,624	1,264,790	435,728	1,216,376	2,313,749	382,712	2,529,283	9,930,262	11,676,625
Disposals	-	(246,478)	(2,241,888)	(87,765)	(1,108,683)	(92,801)	-	(5,446,471)	(9,224,086)	(6,096,141)
At the end of the year	-	38,657,097	62,156,872	20,053,861	6,924,125	22,303,538	11,125,765	6,332,335	167,553,593	166,847,417
Net book values:										
As at 31 December 2014	640,177	37,615,956	9,632,653	1,474,967	2,565,224	4,030,769	2,756,072	6,953,442	65,669,260	
As at 31 December 2013	640,177	39,517,336	6,066,113	1,585,579	3,040,888	5,232,296	1,976,586	7,521,365		65,580,340

L'azurde Company for Jewelry and Its Subsidiaries
(Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
31 December 2014

9. PROPERTY, PLANT AND EQUIPMENT (continued)

During 2014, the management of the Group reviewed the estimated useful lives of the machinery and equipment and buildings. Based on the reports from the technical department, they believe that it is appropriate to extend the useful lives of machinery and equipment from five years to ten years (or depreciation rate from 20% to 10%) and for buildings from 33 years to 50 years (or depreciation rate from 3% to 2%), with effect from 1 January 2014. Had the Group charged depreciation at the old rates, the net income for the year would have been lower by SR 1,514,820.

10. INTANGIBLE ASSETS

This comprises trademarks with infinite lives and assessed for impairment annually and whenever there is an indication that they may be impaired.

11. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

	2014	2013
	SR	SR
Trade accounts payable	21,996,250	25,196,627
Accrued expenses	46,875,892	39,375,471
Unrealised gain on gold revaluation	316,230	6,554
Accrued financial charges	3,721,906	2,345,135
Other payables	7,085,827	5,040,177
	79,996,105	71,963,964

12. SHORT-TERM LOANS

Short-term loans primarily consist of gold loans granted by certain banks, at normal commercial commission rates, which are mainly secured by restricted margin deposits (note 5) and gold inventory (note 7).

L'azurde Company for Jewelry and Its Subsidiaries
(Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2014

13. ZAKAT AND INCOME TAX

A) ZAKAT

The consolidated zakat liability of the Group for the year represents the zakat on L'azurde Company for Jewelry and its wholly-owned subsidiaries.

Charge for the year

Zakat charge consists of the current year provision amounting to SR 13,240,413 (2013: SR 11,910,249).

The current year's provision is based on the zakat base of the Company and its effectively wholly-owned subsidiaries as follows:

	2014 SR	2013 SR
Equity	417,927,944	406,577,027
Opening provisions and other adjustments	43,240,793	23,668,612
Book value of long-term assets	(66,165,307)	(64,084,928)
	395,003,430	366,160,711
Zakatable income for the year	116,951,094	110,249,262
Zakat base	511,954,524	476,409,973

The differences between the financial and the zakat results are mainly due to depreciation adjustments and provisions which are not allowed in the calculation of zakatable income.

Movement in the provision

The following is the movement of zakat provision for the year ended 31 December:

	2014 SR	2013 SR
At the beginning of the year	11,532,302	9,916,766
Provided for the year	13,240,413	11,910,249
Payments during the year	(11,620,122)	(10,294,713)
At the end of the year	13,152,593	11,532,302

Status of assessments

The Company has filed and paid the zakat returns for all years up to 2013 and obtained final certificates for all years. The Company received an assessment for the year 2004 which was finalized and settled. The Company currently has no pending issues with the Department of Zakat and Income Tax ("DZIT") on the remaining years.

B) INCOME TAX

ORO Egypt Company, registered in Arab Republic of Egypt, is exempt from income tax obligations on its commercial and manufacturing results for a period of five years effective 2009.

L'azurde Company for Jewellery (formerly International Company for Jewelry Manufacturing), registered in Arab Republic of Egypt, is exempt from income tax obligations on its commercial and manufacturing results for a period of ten years effective 2008.

L'azurde Company for Jewelry LLC and L'azurde Jewellery LLC are registered in the United Arab Emirates (Dubai and Abu Dhabi respectively) which is a tax-free country.

L'azurde Company for Jewellery LLC which is registered in the state of Qatar has filed the tax return for year 2013, the company's first year of operations in the State of Qatar.

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14. EMPLOYEES' TERMINAL BENEFITS

	2014	2013
	SR	SR
At the beginning of the year	23,739,718	20,606,455
Charge for the year	6,551,641	4,919,618
Payments during the year	(1,352,490)	(1,786,355)
At the end of the year	28,938,869	23,739,718

15. SHARE CAPITAL

Share capital is divided into 30,000,000 shares (2013: 30,000,000 shares) of SR 10 each.

16. STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies, the Company must set aside 10 per cent of the net income for each year (after deducting losses brought forward) until it has built up a reserve equal to one half of the capital. The reserve is not available for distribution.

17. SELLING AND MARKETING EXPENSES

	2014 SR	2013 SR
Advertisements and promotional activities	42,945,759	32,728,040
Gold calibration charges	23,442,873	23,201,066
Salaries and employees' benefits	23,021,791	18,324,528
Sales commissions	11,881,355	10,339,166
Rent	7,727,984	5,285,103
Depreciation	4,111,664	3,524,572
Travel	1,795,130	1,928,461
Insurance	981,906	1,151,632
Doubtful debts (reversal)/expense	(1,551,841)	8,613,321
Other	7,207,664	6,702,706
	121,564,285	111,798,595

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18. GENERAL AND ADMINISTRATION EXPENSES

	2014 SR	2013 SR
Salaries and employees' benefits	37,307,332	31,938,209
Consultancy and professional fees	2,817,875	1,691,436
Travel	1,917,391	1,900,456
Depreciation	1,750,084	1,434,960
Printing, stationery and communication	1,078,605	1,067,392
Repairs and maintenance	629,801	484,475
Charity and donations	15,000	-
Other	3,474,419	2,764,169
	48,990,507	41,281,097

19. OTHER EXPENSES, NET

	2014 SR	2013 SR
Gain from foreign currency exchange differences, net	1,113,085	1,672,778
Gain/(loss) on disposal of property, plant and equipment	77,646	(1,893,171)
Loss on closure of showroom	(2,184,000)	-
Impairment of prepayments	(2,014,714)	-
Miscellaneous	(124,948)	(541,949)
Severance for ex-employee	-	(543,775)
Tax penalties	-	(327,776)
	(3,132,931)	(1,633,893)

20. EARNINGS PER SHARE

Earnings per share is calculated based on the number of outstanding shares at the end of the year. The outstanding number of shares at 31 December 2014 and 2013 is 30 million shares.

The Earnings per share attributable to income from main operations has increased by 10.7 per cent to SR 4.35 per share for the year ended 31 December 2014 (2013: SR 3.93 per share).

21. OPERATING LEASES

Rent expenses are related to operating leases. During the year, an amount of SR 7,727,984 (2013: SR 5,285,103) was recognised as an expense in the consolidated statement of income in respect of operating leases (see note 17).

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22. SEGMENTAL INFORMATION

These are attributable to the Group's activities and business lines approved by management to be used as a basis for the financial reporting and are consistent with the internal reporting process. The segments' results and assets comprise items that are directly attributable to a certain segment and items that can be reasonably allocated between the various business segments.

The Group is organised into the following main business segments:

	Retail	Wholesale	Total
	SR	SR	SR
For the year ended 31 December 2014:			
Sales	73,194,779	2,686,316,717	2,759,511,496
Gross profit	22,781,598	278,401,241	301,182,839
Net book value of property, plant and equipment	6,538,778	59,130,482	65,669,260
Total assets	66,549,150	1,588,350,988	1,654,900,138
Total liabilities	(10,389,528)	(1,161,313,350)	(1,171,702,878)
For the year ended 31 December 2013:			
Sales	77,499,781	2,849,794,360	2,927,294,141
Gross profit	19,952,282	251,040,800	270,993,082
Net book value of property, plant and equipment	8,068,202	57,512,138	65,580,340
Total assets	72,204,902	1,317,361,295	1,389,566,197
Total liabilities	(8,009,018)	(915,262,927)	(923,271,945)

The primary markets for the Group's products are the Kingdom of Saudi Arabia, GCC and Egypt. It is impracticable to disclose information pertaining to individual geographic areas.

23. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and cash equivalents, inventories, receivables, short-term deposits and margin deposits. Its financial liabilities consist of short-term loans and payables.

The fair values of financial instruments are not materially different from their carrying values.

24. DIVIDENDS

On 18 Thul Hijjah 1435H (corresponding to 12 October 2014) the board of directors recommended and approved to distribute interim cash dividends at SR 2.09 per share with total amount of SR 62,827,057.

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25. RISK MANAGEMENT

Gold price risk

Gold price risk is the risk that the value of assets and liabilities accounts denominated in gold will fluctuate due to changes in the gold price. The management minimizes its risk relating to the gold price fluctuation by maintaining equal quantity of gold in assets and liabilities where deemed practical. As at 31 December, gold accounts were as follows:

	2014		2013	
	SR	Grams (in 24 karat)	SR	Grams (in 24 karat)
Gold asset – inventories	829,264,446	5,730,867	690,483,783	4,762,844
Gold asset – receivables	246,585,883	1,704,102	144,747,982	998,448
Gold liability – payables	(4,846,918)	(33,496)	-	-
Gold liability – loans	(1,049,615,311)	(7,253,428)	(816,035,961)	(5,628,712)
Net gold assets	21,388,100	148,045	19,195,804	132,580

Gold market price was SR 144.701 per gram in 24 karat gold as at 31 December 2014 (2013: SR 144.973 per gram) and USD 1,200.25 per ounce in 24 karat gold as at 31 December 2014 (2013: USD 1,202.50 per ounce).

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group did not undertake significant transactions in foreign currencies other than US Dollars, Euros and Egyptian Pounds during the year. Therefore, management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge its foreign currency exposure.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Group is subject to interest rate risk on its interest bearing assets and liabilities, including bank deposits and loans.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Group, the maximum credit risk exposure to the Group is the carrying value as disclosed in the consolidated balance sheet.

The Group seeks to limit its credit risk with respect to customers by setting credit limit for individual customers and monitoring outstanding receivables. Receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia, United Arab Emirates and the Arab Republic of Egypt.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its commitments associated with financial liabilities when they fall due. Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

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26. CONTINGENT LIABILITIES

The Group's bankers have issued letters of guarantee amounting to SR 855,000 (2013: SR 132,000) in respect of its operations.

27. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 15 Rabi Thani 1436H, (corresponding to 4 February 2015).

28. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year.