

**L'azurde Company for Jewelry and Its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**Consolidated FINANCIAL STATEMENTS**  
**31 DECEMBER 2013**



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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 2013 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 2013 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: 5 Rabi Al-Thani 1435H  
(5 February 2014)

**L'azurde Company for Jewelry and Its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**CONSOLIDATED BALANCE SHEET**  
**As at 31 December 2013**

	Note	2013 SR	2012 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	134,421,715	11,741,487
Short-term deposits		11,000,000	-
Margin deposits	5	117,526,546	88,713,929
Accounts receivable	6	173,837,362	188,571,703
Inventories	7	849,420,752	920,486,546
Prepayments and other receivables	8	37,479,483	33,400,810
TOTAL CURRENT ASSETS		1,323,685,858	1,242,914,475
NON-CURRENT ASSETS			
Property, plant and equipment	9	65,580,340	64,283,427
Intangible assets	10	299,999	357,425
TOTAL NON-CURRENT ASSETS		65,880,339	64,640,852
TOTAL ASSETS		1,389,566,197	1,307,555,327
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable, accrued expenses and other liabilities	11	71,963,964	55,537,375
Short-term loans	12	816,035,961	823,319,370
Zakat	13	11,532,302	9,916,766
TOTAL CURRENT LIABILITIES		899,532,227	888,773,511
NON-CURRENT LIABILITIES			
Employees' terminal benefits	14	23,739,718	20,606,455
TOTAL LIABILITIES		923,271,945	909,379,966
SHAREHOLDERS' EQUITY			
Share capital	15	300,000,000	300,000,000
Statutory reserve	16	43,880,067	36,462,270
Retained earnings		136,874,934	70,114,757
Foreign currency translation adjustments		(14,460,749)	(8,401,666)
TOTAL SHAREHOLDERS' EQUITY		466,294,252	398,175,361
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,389,566,197	1,307,555,327

The consolidated financial statements have been approved by the shareholders on 5 February 2014 and signed on their behalf by:

\_\_\_\_\_  
Selim Chidiac  
Chief Executive Officer

\_\_\_\_\_  
Mekki Benjdya  
Chief Financial Officer

The attached notes 1 to 27 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 2013**

	Note	2013 SR	2012 SR
Sales		3,107,163,888	2,439,095,414
Cost of sales		(2,836,170,806)	(2,222,881,973)
GROSS PROFIT		270,993,082	216,213,441
EXPENSES			
Selling and marketing	17	(111,798,595)	(93,656,835)
General and administration	18	(41,281,097)	(33,301,134)
		(153,079,692)	(126,957,969)
INCOME FROM MAIN OPERATIONS		117,913,390	89,255,472
Financial charges		(30,191,274)	(30,099,689)
Other (expenses) / income, net	19	(1,633,893)	2,052,284
NET INCOME BEFORE ZAKAT		86,088,223	61,208,067
Zakat	13	(11,910,249)	(9,731,928)
NET INCOME FOR THE YEAR		74,177,974	51,476,139
Earnings per share			
Attributable to income from main operations	20	3.93	2.98
Attributable to net income	20	2.47	1.72

The attached notes 1 to 27 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 2013**

	2013 SR	2012 SR
OPERATING ACTIVITIES		
Income before zakat	86,088,223	61,208,067
Adjustments for:		
Depreciation	11,676,625	10,861,637
Employees' terminal benefits expense	4,919,618	3,715,048
Loss/(gain) on disposal of property, plant and equipment	1,893,171	(174,326)
Loss on disposal of intangible assets	57,426	-
Melting costs and charge for slow moving inventory items	9,845,473	8,143,644
Doubtful debts expense	8,613,321	11,018,891
	123,093,857	94,772,961
Changes in operating assets and liabilities:		
Margin deposits	(28,812,617)	24,407,847
Accounts receivable	6,121,020	(18,890,618)
Inventories	61,220,321	(56,531,573)
Prepayments and other receivables	(4,078,673)	(7,522,020)
Accounts payable, accrued expenses and other liabilities	16,426,589	(8,172,832)
Proceeds/(repayments) of short-term gold loans, net	9,716,591	(25,063,504)
Cash from operations	183,687,088	3,000,261
Zakat paid	(10,294,713)	(8,237,678)
Employees' terminal benefits paid	(1,786,355)	(3,102,434)
Net cash generated from/(used in) operating activities	171,606,020	(8,339,851)
INVESTING ACTIVITIES		
Short-term deposits	(11,000,000)	-
Purchase of property, plant and equipment	(17,773,479)	(15,964,357)
Proceeds from disposal of property, plant and equipment	2,906,770	581,290
Net cash used in investing activities	(25,866,709)	(15,383,067)
FINANCING ACTIVITIES		
Repayment of short-term cash loans, net	(17,000,000)	(20,000,000)
Foreign currency translation adjustments, net	(6,059,083)	(3,369,813)
Net cash used in financing activities	(23,059,083)	(23,369,813)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	122,680,228	(47,092,731)
Cash and cash equivalents at the beginning of the year	11,741,487	58,834,218
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	134,421,715	11,741,487

The attached notes 1 to 27 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 2013**

	Share capital SR	Statutory reserve SR	Retained earnings SR	Foreign currency translation adjustments SR	Total SR
Balance at 31 December 2011	300,000,000	31,314,656	23,786,232	(5,031,853)	350,069,035
Net income for the year	-	-	51,476,139	-	51,476,139
Transferred to statutory reserve	-	5,147,614	(5,147,614)	-	-
Foreign currency translation adjustments	-	-	-	(3,369,813)	(3,369,813)
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

The attached notes 1 to 27 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 2013**

## 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 in the Kingdom through various branches and in the Gulf region through its Dubai and Kuwait branches that are also engaged in the trading of jewelry, gold and silver products.

The Company effectively owns 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
International Company for Jewelry Manufacturing (*)	100	Gold manufacturing	546	Arab Republic of Egypt

(\*) During 2012 the Company effectively acquired 100% of the voting shares of International Company for Jewelry Manufacturing for an amount of EGP 750,000 (SR 468,750).

## 2. BASIS OF CONSOLIDATION

These consolidated financial statements include the assets and liabilities and the results of operations of the Company and its branches and 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 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.

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

## 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.

**L'azurde Company for Jewelry and Its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2013**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**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.



**L'azurde Company for Jewelry and Its Subsidiaries**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2013**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 & overheads based on a normal level of activity.

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 (the consolidated financial statements) in accordance with the Saudi Arabian fiscal regulations. The foreign subsidiaries provides 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.

**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.

**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 gain and loss 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.

**L'azurde Company for Jewelry and Its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2013**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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**

	2013	2012
	SR	SR
Cash in hand and bank balances	29,421,715	11,741,487
Short-term deposits	105,000,000	-
	134,421,715	11,741,487

**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).

**6. ACCOUNTS RECEIVABLE**

	2013	2012
	SR	SR
Trade receivables	187,334,165	198,937,708
Less: provision for doubtful debts	(13,496,803)	(10,366,005)
	173,837,362	188,571,703

**L'azurde Company for Jewelry and Its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2013**

**7. INVENTORIES**

By component:

	2013	2012
	SR	SR
Gold on hand, on consignment and in banks	686,605,843	775,533,944
Diamonds, stones and pearls	138,767,878	122,439,163
Gold with suppliers	16,768,387	16,786,298
Materials and accessories	16,185,337	14,139,638
	858,327,445	928,899,043
Less: provision for melting costs and slow moving inventory items	(8,906,693)	(8,412,497)
	849,420,752	920,486,546

By stage of completion:

	2013	2012
	SR	SR
Finished goods	505,126,954	536,646,197
Raw material	333,029,054	372,125,653
Gold with suppliers	16,768,387	16,786,298
Work in progress	3,403,050	3,340,895
	858,327,445	928,899,043
Less: provision for melting costs and slow moving inventory items	(8,906,693)	(8,412,497)
	849,420,752	920,486,546

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 2013**

**8. PREPAYMENTS AND OTHER RECEIVABLES**

	2013	2012
	SR	SR
Advances to suppliers	14,549,938	11,655,885
Prepayments	17,219,706	13,750,807
Advances to employees	2,876,448	3,939,621
Accrued income	420,607	193,506
Other receivables	2,412,784	3,860,991
	37,479,483	33,400,810

**9. PROPERTY, PLANT AND EQUIPMENT**

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

Buildings	3%	Office equipment	15% to 50%
Machinery and equipment	15%	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 2013**

**9. PROPERTY, PLANT AND EQUIPMENT**

	Land SR	Buildings SR	Machinery and equipments SR	Furniture and fixtures SR	Motor vehicles SR	Office equipment SR	Tools, dies and other assets SR	Leasehold improvements SR	Total 2013 SR	Total 2012 SR
Cost:										
At the beginning of the year	640,177	72,775,117	71,730,133	20,773,291	8,438,615	22,104,523	13,669,536	15,418,968	225,550,360	210,897,107
Reclassifications	-	-	-	-	-	1,278,490	(1,278,490)	-	-	-
Additions	-	3,858,170	5,517,695	668,683	2,310,016	2,254,942	319,927	2,844,046	17,773,479	15,964,357
Disposals	-	-	(8,047,745)	(150,497)	(891,311)	(305,572)	(8,831)	(1,492,126)	(10,896,082)	(1,311,104)
At the end 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
Depreciation:										
At the beginning of the year	-	34,876,805	64,397,414	19,299,913	6,718,663	17,545,027	11,092,946	7,336,165	161,266,933	151,309,436
Reclassifications	-	-	-	-	-	573,785	(573,785)	-	-	-
Charge for the year	-	2,239,146	3,750,954	519,267	962,425	2,082,431	209,044	1,913,358	11,676,625	10,861,637
Disposals	-	-	(5,014,398)	(113,282)	(864,656)	(101,156)	(2,649)	-	(6,096,141)	(904,140)
At the end 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
Net book values:										
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	
As at 31 December 2012	640,177	37,898,312	7,332,719	1,473,378	1,719,952	4,559,496	2,576,590	8,082,803		64,283,427

**L'azurde Company for Jewelry and Its Subsidiaries**  
**(Saudi Joint Stock Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 December 2013**

**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**

	2013	2012
	SR	SR
Trade accounts payable	25,196,627	11,625,521
Accrued expenses	39,375,471	34,803,339
Unrealised gain on gold revaluation	6,554	4,892,760
Accrued financial charges	2,345,135	1,922,417
Other payables	5,040,177	2,293,338
	71,963,964	55,537,375

**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).

	2013	2012
	SR	SR
Gold loans	816,035,961	806,319,370
Cash loans	-	17,000,000
	816,035,961	823,319,370

**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 subsidiaries.

**Charge for the year**

Zakat charge consists of the current year provision amounting to SR 11,910,249 (2012: SR 9,731,928).

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

	2013 SR	2012 SR
Equity	406,577,027	355,100,888
Opening provisions and other adjustments	23,668,612	17,345,097
Book value of long-term assets	(64,084,928)	(64,640,852)
	366,160,711	307,805,133
Zakatable income for the year	110,249,262	81,471,987
Zakat base	476,409,973	389,277,120

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.

**L'azurde Company for Jewelry and Its Subsidiaries**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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**13. ZAKAT AND INCOME TAX**

***Movement in the provision***

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

	2013	2012
	SR	SR
At the beginning of the year	9,916,766	8,422,516
Provided for the year	11,910,249	9,731,928
Payments during the year	(10,294,713)	(8,237,678)
At the end of the year	11,532,302	9,916,766

***Status of assessments***

The Company has paid and filed the zakat returns for all the years up to 2012. The Company has finalized its zakat assessments with the Department of Zakat and Income Tax ("DZIT") for all years up to 2004. The Company has no pending issues with the DZIT on the remaining years.

**B) INCOME TAX**

ORO Egypt Company is exempt from income tax obligations on its commercial and manufacturing results for a period of five years effective 2010.

International Company for Jewelry Manufacturing is exempt from income tax obligations on its commercial and manufacturing results for a period of ten years effective 2008.

**14. EMPLOYEES' TERMINAL BENEFITS**

	2013	2012
	SR	SR
At the beginning of the year	20,606,455	19,993,841
Charge for the year	4,919,618	3,715,048
Payments during the year	(1,786,355)	(3,102,434)
At the end of the year	23,739,718	20,606,455

**15. SHARE CAPITAL**

Share capital is divided into 30,000,000 shares (2012: 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% 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.

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**17. SELLING AND MARKETING EXPENSES**

	2013 SR	2012 SR
Advertisements and promotional activities	32,728,040	22,338,679
Gold calibration charges	23,201,066	23,552,251
Salaries and employees' benefits	18,324,528	14,384,186
Sales commissions	10,339,166	7,470,080
Doubtful debts expense	8,613,321	11,018,891
Rent	5,285,103	4,719,312
Depreciation	3,524,572	2,558,182
Travel	1,928,461	1,608,237
Insurance	1,151,632	1,019,296
Other	6,702,706	4,987,721
	111,798,595	93,656,835

**18. GENERAL AND ADMINISTRATION EXPENSES**

	2013 SR	2012 SR
Salaries and employees' benefits	31,938,209	27,319,617
Travel	1,900,456	1,156,686
Consultancy and professional fees	1,691,436	502,855
Depreciation	1,434,960	928,527
Printing, stationery and communication	1,067,392	767,985
Repairs and maintenance	484,475	313,195
Other	2,764,169	2,312,269
	41,281,097	33,301,134

**19. OTHER (EXPENSES)/INCOME, NET**

	2013 SR	2012 SR
Gain from foreign currency exchange differences, net	1,672,778	1,266,615
(Loss)/gain on disposal of property, plant and equipment	(1,893,171)	174,326
Severance for ex-employee	(543,775)	-
Tax penalties	(327,776)	-
Miscellaneous	(541,949)	120,634
Insurance claim proceeds	-	490,709
	(1,633,893)	2,052,284



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**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 2013 and 2012 is 30 million shares.

The Earnings per share attributable to income from main operations has increased by 32 per cent to SR 3.93 per share for the year ended 31 December 2013 (2012: SR 2.98 per share).

**21. OPERATING LEASES**

Rent expenses are related to operating leases. During the year, an amount of SR 5,285,103 (2012: SR 4,719,312) was recognised as an expense in the consolidated statement of income in respect of operating leases (see note 17).

**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 2013:			
Sales	77,499,781	3,029,664,107	3,107,163,888
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)
For the year ended 31 December 2012:			
Sales	66,513,817	2,372,581,597	2,439,095,414
Gross profit	20,785,850	195,427,591	216,213,441
Net book value of property, plant and equipment	6,268,086	58,015,341	64,283,427
Total assets	72,743,328	1,234,811,999	1,307,555,327
Total liabilities	(3,094,570)	(906,285,396)	(909,379,966)

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.

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**24. 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:

	2013		2012	
	SR	Grams (in 24 karat)	SR	Grams (in 24 karat)
Gold asset - inventories	690,833,748	4,765,258	779,906,926	3,859,244
Gold asset - receivables	144,398,182	996,035	164,712,791	815,054
Gold liability - loans	(816,035,961)	(5,628,712)	(806,319,370)	(3,989,941)
Net gold assets	19,195,969	132,581	138,300,347	684,357

Gold market price was SR 144.973 per gram in 24 karat gold as at 31 December 2013 (2012: SR 202.088 per gram) and USD 1,202.50 per ounce in 24 karat gold as at 31 December 2013 (2012: USD 1,676.21 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 and 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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**25. CONTINGENT LIABILITIES**

The Group's bankers have issued letters of guarantee amounting to SR 132,000 (2012: SR 234,000) in respect of its operations.

**26. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved by the Board of Directors on 5 Rabi Thani 1435H, (corresponding to 5 February 2014).

**27. COMPARATIVE FIGURES**

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