

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

**CONSOLIDATED FINANCIAL
STATEMENTS AND AUDITOR'S
REPORT
FOR THE YEAR ENDED
31 DECEMBER 2018**

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

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of L'azurde Company for Jewelry and its Subsidiaries
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of L'azurde Company for Jewelry (the "Company") and its Subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements taken as a whole present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as endorsed in the Kingdom of Saudi Arabia by the Saudi Organization for Certified Public Accountants (SOCPA) and other standards and pronouncements endorsed by SOCPA.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Saudi Arabia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters (KAMs)

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter, a description of how our audit addressed the matter is set out below:

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Key Audit Matters (KAMs) (continued)

1. **Business combination:** The Group acquired Izdiad Commercial Company of Arabia during the year and obtained control from 30 October 2018.

The accounting for acquisition is governed by IFRS 3 “Business Combinations”, whose requirements can be complex and requires the management to exercise judgment in determining certain estimates. The most significant is the determination of purchase price allocation which encompasses identifying the assets and liabilities acquired and determining the fair values, determining goodwill to be recognised on acquisition and determining the value of the considerations transferred. The acquisition resulted in goodwill of SAR 140.9 million, however, it’s not yet due for impairment testing.

This is a key audit matter due to the value of the current year acquisition and the level of judgement and estimate involved in the purchase price allocation. Details of the business combination have been disclosed in note 32 to the consolidated financial statements.

Our audit procedures included, amongst others, the following:

- Assessed whether the acquisition during the year met the criteria of a business combination in accordance with IFRS 3;
- Recomputed the value of the considerations transferred with reference to the purchase agreements and the effective date of acquisition;
- Discussed with management the key assumptions used by the Group in determining the fair value such as discount rate, long-term growth rates and future business operating results;
- Evaluated the appropriateness in identification of significant assets acquired and liabilities assumed prepared by the Group and inquire about methodologies used in assessing the estimated fair value; and
- Assessed the Group’s disclosures as per the requirements of the applicable IFRSs.

2. **Valuation of inventories:** As at 31 December 2018 the Group held inventories with a value of SAR 788.9 million (2017: SAR 915 million).

Inventories are stated at lower of cost or net realizable value and a provision for melting and slow-moving inventories is made by management. The Group makes significant judgments in estimating net realizable values of inventories along with the assessment of the level of provision required for melting and slow-moving inventories based on the inventory ageing reports together with the historical trends to estimate the likely future salability of slow moving and older inventory items.

We focused on this area given the size of the inventory balance relative to the total assets of the Group. Moreover, the estimation of net realizable values of inventories involved a high level of management judgment. These estimations are also subject to uncertainty as a result of changes in gold market values.

Key Audit Matters (KAMs) (continued)

2. Valuation of inventories (continued)

Our audit procedures in this area included, among other things:

- Assessed and tested the design and operating effectiveness of key controls over inventories;
- For a sample of inventory items, we re-performed the valuation of inventory items to the last purchase invoice;
- Tested the ageing reports used by the management by agreeing the sample of aged inventory items to the last recorded invoice;
- On a sample basis, we tested the net realizable value of non-gold inventories to the most recent selling prices and for gold inventory to gold market prices;
- Re-performed the calculation of provision for melting and slow-moving inventory items in accordance with the Group's policy, based on the inventory ageing reports; and
- Assessed the adequacy of the Group's disclosure in relation to the valuation on inventories by reference to the requirements of the relevant accounting standards.

Inventories are disclosed in note 9 to the consolidated financial statements. The Group's accounting policies for inventories are disclosed in notes 4 and 5 to the consolidated financial statements.

3. Adoption of IFRS 9 “Financial Instruments”: The Group adopted the accounting standard IFRS 9 “Financial instruments” during the year. The new standard supersedes the requirements of IAS 39 “Financial instruments – recognition and measurement”.

IFRS 9 addresses a new classification and measurement approach for financial assets that reflects the business model in which the financial assets are managed and the underlying cashflow characteristics. IFRS 9 introduces new impairment rules which prescribe a new, forward looking, expected credit loss (‘ECL’) impairment model which takes into account reasonable and supportable forward-looking information, which will generally result in the earlier recognition of impairment provisions.

We considered this as a key audit matter due to the judgments and estimates involved in the application of the expected credit loss model.

We performed the following audit procedures in relation to the implementation of IFRS 9:

- Reviewed management's assessment of the impact of the IFRS 9 in terms of the classification and measurement of financial assets and financial liabilities. We specifically considered the validity of management's conclusion that the main area of impact was in respect of impairment of accounts receivable;
- Reviewed the ECL model assumptions and reasonableness used as required by the IFRS 9. We also tested the arithmetical accuracy of the model;
- Tested key assumptions used by the management to those used to calculate the likelihood of default and the subsequent loss on default, by comparing to historical data. We also considered the forward-looking factors to reflect the impact of future events on expected credit loss model; and
- Reviewed the adequacy of the disclosures required in the consolidated financial statements in relation to adoption of new standard.

Financial instruments are disclosed in note 30 to the consolidated financial statements. The Group's accounting policies for financial instruments are disclosed in notes 5 and 6.1 (B) to the consolidated financial statements.

- 4. Adoption of IFRS 15 “Revenue from contracts with customers”:** The Group adopted IFRS 15 “Revenue from contracts with customers” starting from 1 January 2018 and this new standard supersedes the requirements of IAS 18 “Revenues”.

Management performed detailed analysis for each type of revenue contract with the customers to identify differences in between the requirements of the two standards, identify the changes required to be made to the existing accounting policies and determine the transition adjustments and consequential changes to processes and controls required particularly in connection with the separation of different performance obligations that there may be within a given contract.

We considered it as a key audit matter as revenue is a key financial statement item and the adoption of IFRS 15 can require judgement by management and the use of significant assumptions.

Our audit procedures in this area included, amongst other things:

- Reviewed detailed analysis carried out by the management for various revenue streams and how the new standard impacts the Group;
- Gained an understanding of management’s approach to the implementation of any changes to accounting policy;
- Obtained an understanding of the nature of the revenue contracts used by the Group for each significant revenue stream, tested a sample of sales contracts to confirm our understanding and assess whether or not management’s application of IFRS 15 requirements was in accordance with the said standard;
- Reviewed the design and implementation of the process and internal control of the Group, to ensure appropriate revenue recognition; and
- Assessed the adequacy of the Group’s disclosures in relation to the adoption of new standard in accordance with IFRS 15.

Revenues are disclosed in note 31 to the consolidated financial statements. The Group’s accounting policies for revenues are disclosed in notes 5 and 6.1 (A) to the consolidated financial statements.

Other information included in the Group’s Annual Report

Other information consists of the information included in the Group’s 2018 annual report, other than the financial statements and our auditors’ report thereon. Management is responsible for the other information in its annual report.

Our opinion on the consolidated financial statements does cover the other information and we do not and will not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, applicable requirements of Regulation for Companies and by-laws of the Group and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, being the "Audit Committee", are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Article (135) of the Companies Law requires that the auditor includes in his report violations to the provisions of the Companies Law or Company's articles of association. During the course of our audit of the consolidated financial statements, we have not discovered a violation to the provisions of the Companies Law or the provisions of the Company's articles of association.

Riyadh, 22 Jumada Al-akher 1440
Corresponding to 27 February 2019




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


**Abdullah M. Al Basri
Certified Public Accountant
(License No. 171)**

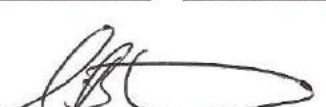
L'AZURDE COMPANY FOR JEWELRY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	31 December 2018 SAR	31 December 2017 SAR
ASSETS			
Non-Current Assets			
Property and equipment	7	92,114,655	77,111,917
Intangible assets and goodwill	8	142,414,707	633,861
Other non-current assets		1,075,452	999,495
Total Non-Current Assets		235,604,814	78,745,273
Current Assets			
Inventories	9	788,855,739	915,031,906
Accounts receivable	10	570,488,664	459,546,951
Other current assets	11	39,123,127	26,799,657
Cash margins		101,528,790	110,141,983
Cash and cash equivalents	12	47,733,037	57,431,809
Total Current Assets		1,547,729,357	1,568,952,306
TOTAL ASSETS		1,783,334,171	1,647,697,579
EQUITY AND LIABILITIES			
Equity			
Share capital	13	430,000,000	430,000,000
Statutory reserve	14	22,186,724	20,420,130
Retained earnings		149,927,579	131,517,388
Foreign currency translation reserve		(176,028,776)	(175,478,759)
Total Equity		426,085,527	406,458,759
Liabilities			
Non-Current Liabilities			
Long term murabaha facility	15	94,000,000	-
Employees' end of service benefits	16	32,645,186	37,637,949
Deferred tax liability	17	982,726	555,171
Long term payable	32	50,600,305	-
Total Non-Current Liabilities		178,228,217	38,193,120
Current Liabilities			
Accounts payable and other current liabilities	18	50,451,289	45,459,745
Current portion of long-term murabaha facility	15	14,000,000	-
Short-term murabaha facilities	19	1,091,731,614	1,134,172,386
Zakat and income tax liability		22,837,524	23,413,569
Total Current Liabilities		1,179,020,427	1,203,045,700
Total Liabilities		1,357,248,644	1,241,238,820
TOTAL EQUITY AND LIABILITIES		1,783,334,171	1,647,697,579


Ayman Gamil
Chief Financial Officer


Selim Chidiac
Chief Executive Officer



Sunil Bhilotra
Authorized Board Member


The annexed notes from 1 – 33 form an integral part of these Consolidated Financial Statements


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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	31 December 2018 SAR	31 December 2017 SAR
REVENUE			
Gold	31	1,505,917,472	1,397,133,899
Operations	31	406,445,323	355,373,584
		<u>1,912,362,795</u>	<u>1,752,507,483</u>
COST OF REVENUE			
Gold		(1,505,917,472)	(1,397,133,899)
Operations	21	(162,368,950)	(137,892,199)
		<u>(1,668,286,422)</u>	<u>(1,535,026,098)</u>
GROSS PROFIT		244,076,373	217,481,385
OPERATING EXPENSES			
Selling and marketing expenses	22	(131,809,933)	(104,577,492)
General and administrative expenses	23	(42,339,004)	(37,635,578)
OPERATING PROFIT		69,927,436	75,268,315
OTHER EXPENSES			
Other expenses – net	24	(4,358,152)	(534,494)
Finance costs – net	25	(35,593,722)	(30,740,442)
		<u>(39,951,874)</u>	<u>(31,274,936)</u>
NET PROFIT BEFORE ZAKAT AND TAXES		29,975,562	43,993,379
Zakat	26	(10,718,836)	(10,613,077)
Income tax	26	(1,590,788)	(1,836,379)
		<u>(12,319,624)</u>	<u>(12,449,456)</u>
NET PROFIT FOR THE YEAR		17,665,938	31,543,923
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the parent		<u>17,665,938</u>	<u>31,543,923</u>
EARNINGS PER SHARE:			
Basic	27	0.41	0.73
Diluted	27	0.41	0.73


Ayman Gamil
 Chief Financial Officer


Selim Chidiac
 Chief Executive Officer



Sunil Bhilotra
 Authorized Board Member


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

**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	31 December 2018 <u>SAR</u>	31 December 2017 <u>SAR</u>
NET PROFIT FOR THE YEAR	17,665,938	31,543,923
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to profit or loss		
Re-measurement on employees' end of service benefits	4,311,996	(4,656,768)
Items that will be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(550,017)	444,765
Other comprehensive income/ (loss) for the year – net of tax	<u>3,761,979</u>	<u>(4,212,003)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>21,427,917</u>	<u>27,331,920</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:		
Equity holders of the parent	<u>21,427,917</u>	<u>27,331,920</u>


Ayman Gamh
Chief Financial Officer


Selim Chidiac
Chief Executive Officer


Sunil Bhilotra
Authorized Board Member


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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Share Capital SAR	Statutory Reserve SAR	Retained Earnings SAR	Foreign Currency Translation Reserve SAR	Total SAR
Balance at 1 January 2018	430,000,000	20,420,130	131,517,388	(175,478,759)	406,458,759
Net profit for the year	-	-	17,665,938	-	17,665,938
Other comprehensive income for the year	-	-	4,311,996	(550,017)	3,761,979
Total comprehensive income for the year	-	-	21,977,934	(550,017)	21,427,917
Transferred to statutory reserve (note 14)	-	1,766,594	(1,766,594)	-	-
Dividends	-	-	(1,801,149)	-	(1,801,149)
BALANCE AT 31 DECEMBER 2018	430,000,000	22,186,724	149,927,579	(176,028,776)	426,085,527

Balance at 1 January 2017	430,000,000	17,265,738	131,129,053	(175,923,524)	402,471,267
Net profit for the year	-	-	31,543,923	-	31,543,923
Other comprehensive loss for the year	-	-	(4,656,768)	444,765	(4,212,003)
Total comprehensive income for the year	-	-	26,887,155	444,765	27,331,920
Transferred to statutory reserve (note 14)	-	3,154,392	(3,154,392)	-	-
Dividends	-	-	(23,344,428)	-	(23,344,428)
BALANCE AT 31 DECEMBER 2017	430,000,000	20,420,130	131,517,388	(175,478,759)	406,458,759


Ayman Gamil
Chief Financial Officer


Selim Chidiac
Chief Executive Officer



Sunil Bhilotra
Authorized Board Member

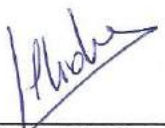
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L'AZURDE COMPANY FOR JEWELRY AND ITS SUBSIDIARIES
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

		31 December 2018 SAR	31 December 2017 SAR
	Notes		
OPERATING ACTIVITIES			
Net profit before zakat and taxes		29,975,562	43,993,379
Adjustments to reconcile net profit before zakat and taxes to net cash from operating activities:			
Depreciation on property and equipment	7	11,320,316	9,897,678
Amortization of intangible assets	8	417,036	234,877
Provision for employees' end of service benefits	16	4,507,767	4,435,178
Provision for expected credit losses	10	2,504,441	(302,697)
Finance costs – net	25	35,593,722	30,740,442
Gain on sale of property and equipment	24	(39,648)	(606,804)
Melting costs and charge for slow moving inventory	9	9,629,809	2,873,045
Foreign currency exchange differences - net		(979,168)	1,956,530
Operating income before changes in working capital		92,929,837	93,221,628
Net changes in working capital:			
Accounts receivable		(112,315,682)	(37,005,563)
Inventories		151,348,458	(111,413,698)
Other current assets		(7,133,985)	3,916,745
Accounts payable and other current liabilities		(10,571,307)	(13,716,587)
Short term murabaha facilities		(81,440,772)	102,600,918
Cash generated from operating activities		32,816,549	37,603,443
Employees' end of service benefits paid	16	(5,737,518)	(3,751,554)
Finance costs paid		(33,730,278)	(34,122,957)
Income taxes paid		(2,862,727)	(1,405,043)
Zakat paid		(10,326,840)	(10,255,879)
Net cash used in operating activities		(19,840,814)	(11,931,990)
INVESTING ACTIVITIES			
Purchase of property and equipment	7	(12,201,437)	(22,651,085)
Proceeds from sale of property and equipment		1,616,298	3,495,327
Acquisition of subsidiary, net of cash acquired	32	(131,628,213)	-
Purchase of intangible assets	8	(1,256,260)	(283,902)
Other non-current assets		(75,957)	(211,673)
Net cash used in investing activities		(143,545,569)	(19,651,333)
FINANCING ACTIVITIES			
Cash facilities (Tawaruq)	19	39,000,000	11,000,000
Long-term murabaha facility	15	108,000,000	-
Cash margins		8,613,193	60,813,726
Dividends paid	33	(1,801,149)	(21,500,000)
Net cash generated from financing activities		153,812,044	50,313,726
Net change in cash and cash equivalents		(9,574,339)	18,730,403
Cash and cash equivalents at beginning of the year	12	57,431,809	38,518,470
Exchange differences on cash and cash equivalents		(124,433)	182,936
Cash and cash equivalents at end of the year	12	47,733,037	57,431,809


Ayman Gamil
Chief Financial Officer


Selim Chidiac
Chief Executive Officer


Sunil Bhilotra
Authorized Board Member

The annexed notes from 1 – 33 form an integral part of these Consolidated Financial Statements

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

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

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

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

- a) **ORO Egypt for Manufacturing Precious Metals ("ORO")**
ORO is a Joint Stock Company incorporated in the Arab Republic of Egypt under Commercial Registration number 7877 dated 27 January 2003. The principal activities of ORO are gold jewelry manufacturing and trading.
- b) **L'azurde Company for Jewellery LLC ("LCJ Egypt")**
LCJ Egypt is a Limited Liability Company incorporated in the Arab Republic of Egypt under Commercial Registration number 14997 dated 08 June 2005. The principal activities of LCJ Egypt are gold jewelry manufacturing and trading.
- c) **L'azurde Company for Jewelry LLC ("LCJ Dubai")**
LCJ Dubai is a Limited Liability Company incorporated in the United Arab Emirates (Dubai) under Commercial Registration number 620369 dated 10 November 2008. The principal activity of LCJ Dubai is trading of gold jewelry items.
- d) **L'azurde Jewellery LLC ("LJ Abu Dhabi")**
LJ Abu Dhabi is a Limited Liability Company incorporated in the United Arab Emirates (Abu Dhabi) under Commercial Registration number 1060233 dated 19 October 2003. The principal activity of LJ Abu Dhabi is trading of gold jewelry items.
- e) **L'azurde Company for Jewellery LLC ("LCJ Qatar")**
LCJ Qatar is a Limited Liability Company incorporated in the State of Qatar under Commercial Registration number 60716 dated 21 May 2013. The principal activity of LCJ Qatar is trading of gold jewelry items.
- f) **Almujwharat Almasiah LLC ("AA")**
AA is a Limited Liability Company incorporated in the Kingdom of Saudi Arabia under Commercial Registration number 1010236734 dated 25 Rajab 1428H (corresponding to 8 August 2007). The principal activities of AA are trading of gold and silver products and precious stones.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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1. ORGANIZATION AND PRINCIPAL ACTIVITIES (continued)

- g) **Kenaz LLC ("Kenaz")**
Kenaz is a Limited Liability Company incorporated in the Kingdom of Saudi Arabia under Commercial Registration number 1010352574 dated 21 Dhul Qadah 1433H (corresponding to 6 October 2012). The principal activities of Kenaz are trading of gold and silver products and precious stones.
- h) **L'azurde Group for Gold and Jewellery DMCC ("L'azurde DMCC")**
L'azurde DMCC is a Limited Liability Company registered with Dubai Multi Commodities Centre Authority, UAE under Trade License number DMCC 108442 dated 26 February 2015. The principal activity of L'azurde DMCC is trading of pearls, precious stones and gold jewellery.
- i) **L'azurde Jewellery LLC ("LJ Oman")**
LJ Oman is a Limited Liability Company registered in the Sultanate of Oman under Commercial Registration number 1320525 dated 30 May 2018. The principal activity of LJ Oman is manufacturing, and trading of jewelry made from precious metals or stones.
- j) **Izdiad Commercial Company of Arabia ("Izdiad")**
Izdiad is a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 1010458294 dated 25 Dhul Hijjah 1439 (corresponding to 5 September 2018). The principal activity of Izdiad is the trading of jewellery, perfume, men and women accessories, leather products and managing franchises and trademarks.

2. STATEMENT OF COMPLIANCE

The consolidated financial statements include consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, and notes to the consolidated financial statements. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") endorsed by Saudi Organization for Certified Public Accountants ("SOCPA") and other standards and pronouncements issued by SOCPA. This is the first set of consolidated financial statements where IFRS 15 and IFRS 9 have been applied. Refer note 6 relating to the adoption of these standards.

The Capital Market Authority (CMA) announced the Board of Commissioners resolution dated 16 October 2016 (corresponding to 15 Muharram 1438H), which obligates the listed entities to apply the cost model to measure the property and equipment, investment properties and intangible assets upon adopting the IFRSs for three years period starting from the IFRSs adoption date, while continuing to abide by the IFRSs, that are endorsed in the Kingdom of Saudi Arabia, disclosure requirements, which encourage the disclosure of the fair value within the notes to these consolidated financial statements. The Group has complied with the requirements in these consolidated financial statements.

The consolidated financial statements for the year ended 31 December 2018 were approved and authorized for issue by the Board of Directors on 27 February 2019.

3. BASIS OF PREPARATION

Basis of measurement

These consolidated financial statements have been prepared under historical cost basis as explained in the relevant accounting policies and measurement basis summarized below, except for employees' end of service benefits provision which has been valued by an independent professional actuary and certain financial assets and financial liabilities which are measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Basis of consolidation

The Group's financial statements consolidate those of the Parent Company and all its subsidiaries at each reporting date. All subsidiaries year-end is 31 December.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

A subsidiary company is consolidated from the date on which the Group obtains control until the date that control ceases. The consolidated financial statements are prepared on the basis of the individual financial statements of the Group and the financial statements of its subsidiaries.

All transactions and balances between Group companies are eliminated on consolidation, including unrealized gains and losses on transactions between Group companies. Where unrealized losses on intra-Group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests, if material.

Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred, and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. Assets acquired, and liabilities assumed are generally measured at their acquisition-date fair values.

Functional and presentational currency

The consolidated financial statements are presented in Saudi Riyal (SAR), which is also the functional and presentational currency of the Parent Company. All amounts have been rounded-off to the nearest Saudi Riyal unless otherwise stated.

Foreign operations

In the Group's consolidated financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the SAR are translated into SAR upon consolidation. The functional currencies of the entities in the Group have remained unchanged during the reporting period.

On consolidation, assets and liabilities of foreign operations have been translated into SAR at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated into SAR at the closing rate. Income and expenses of foreign operations are translated into SAR at the average rate over the reporting period. Exchange differences are charged or credited to other comprehensive income and recognized in the foreign currency translation reserve in equity.

On disposal of a foreign operation, the related cumulative translation differences recognized in equity are reclassified to profit or loss and are recognized as part of the gain or loss on disposal.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Areas involving higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are as follows:

Provision for expected credit losses of accounts receivable

The Group uses a provision matrix to calculate ECLs for accounts receivable. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historically observed default rates. The Group will adjust the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historically observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Useful lives, residual values, or depreciation method of property and equipment

The Group's management determines the estimated useful lives for property and equipment. This estimate is determined after considering the expected usage of the asset or physical wear and tear.

Management reviews the useful lives, residual values, or depreciation method for property and equipment annually. Future depreciation expense would be adjusted where management believes that useful lives, residual values, or depreciation method differ from those used in previous periods.

Amortization of intangible assets

The Group's management determines the estimated useful lives of intangible assets annually. Intangible assets with infinite useful lives are checked annually for impairment. Amortization is reviewed annually and adjusted where management believes that future estimates will differ from those used in previous periods.

Inventories

Management estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future events or other market-driven changes that may reduce or increase future selling prices.

When inventory items become old or obsolete, an estimate is made for their market value. For significant items, this estimation is performed on an individual basis. Inventory items which are not individually significant, but are old or obsolete, are assessed collectively and a provision is applied based on inventory type, degree of ageing or obsolescence, and anticipated selling price.

At the reporting date, inventories were SAR 802.1 million (31 December 2017: SAR 926.9 million) with a provision for melting and slow-moving inventory items of SAR 13.2 million (31 December 2017: SAR 11.9 million). Differences between amounts actually realized and amounts expected to be realized in future periods will be recognized in the consolidated statement of profit or loss.

Impairment of non-financial assets

The Group's management periodically reviews the carrying amounts of non-financial assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated 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 the asset belongs.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Impairment of non-financial assets (continued)

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment is recognized in the consolidated statement of profit or loss.

Provision for zakat and taxes

In making estimates for the zakat and tax payable by the Group, management considers applicable laws and past decisions and judgments of the General Authority of Zakat and Tax.

Provision for employees' end of service benefits

The liabilities relating to defined benefit plans are determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of annual reporting period. The method involves making assumptions about discount rates, future salary increases and mortality rates. Due to the long-term nature of these benefits, such estimates are subject to certain uncertainties. Significant assumptions used to carry out the actuarial valuation have been disclosed in note 16 to these consolidated financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management.

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of annual reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Leasehold improvements are depreciated 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 consolidated statement of profit or loss as incurred with the exception of costs that extend the useful life of the asset or increase its value, which are then capitalized.

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property and equipment are recognized in the consolidated statement of profit or loss.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of assets.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

The Group applies the following useful lives for depreciation to its property and equipment:

Asset Category	Life in years
Buildings	50
Machinery and equipment	10
Furniture and fixtures	6 – 7
Motor vehicles	4
Office equipment	7
Tools, dies and other assets	4 – 7
Leasehold improvements	Shorter of useful life or lease term

Capital work in progress (CWIP)

Capital work in progress is stated at cost less any impairment losses. All expenditure incurred during installation and construction period, in connection with specific assets, are carried to CWIP. The cost of CWIP is transferred to the appropriate category of property and equipment when it is ready for use. The cost of CWIP comprises purchase price and costs directly attributable to bringing the CWIP for its intended use.

Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is carried at cost less accumulated impairment losses.

Intangible assets

An intangible asset is initially recognized at cost which is equal to the fair value of consideration paid at the time of acquisition of the asset.

The Group applies the following estimated useful lives for amortization of intangible assets:

Asset Category	Life in years
Franchise license fee	5
Computer software	2

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognized in consolidated statement of profit or loss when the asset is derecognized.

Impairment testing of goodwill and other intangible assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of a related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment testing of goodwill and other intangible assets (continued)

An impairment loss is recognized for the amount by which the asset's (or cash-generating unit's) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs of other inventory items are determined as follows:

- Raw material, consumables and other manufacturing material are determined at purchase costs using the First-in-First-Out (FIFO) method.
- Work in progress and finished goods are determined at cost of direct material, labor and overheads based on a normal level of activity.
- Re-sellable goods are determined on specific identification basis.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value. Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand and bank account balances and are initially and subsequently recorded at fair value.

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held with banks, all of which have maturities of 90 days or less and are available for use by the Group unless otherwise stated.

Financial Instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs, where applicable.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Classification and initial measurement of financial assets (continued)

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Group does not have any financial assets categorised as FVOCI. The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within selling and marketing expenses.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, accounts receivable collected in cash and most other receivables and cash margins placed with banks fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. Accounts receivable collected in gold are classified under FVTPL.

Financial assets at fair value through other comprehensive income (FVOCI)

The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- They are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognized in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortized cost and FVOCI, trade receivables, contract assets recognized and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Previous financial asset impairment under IAS 39

In the prior year, the impairment of trade receivables was based on the incurred loss model. Individually significant receivables were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. Receivables that were not considered to be individually impaired were reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate was then based on recent historical counterparty default rates for each identified group.

Trade and other receivables

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss provision as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, they have been grouped based on the days past due.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities carried at amortized cost include long term murabaha facility, short term cash facilities, accounts payable and other current liabilities. Short term gold facilities are designated at FVTPL.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related costs and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Derivative financial instruments and hedge accounting

The Group has entered into derivative financial instruments with a financial institution, in the form of forward commodity contracts in order to mitigate the risk of increase in finance costs on short-term gold facilities, due to increase in gold prices. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Derivative financial instruments are accounted for at fair value through profit and loss (FVTPL) except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

- There is an economic relationship between the hedged item and the hedging instrument
- The effect of credit risk does not dominate the value changes that result from that economic relationship
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

Fair value hedges

The change in the fair value of a hedging instrument is recognized in the statement of profit or loss as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the statement of profit or loss as other expense.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts payable and accruals

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

Provisions

Provisions are recognized 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 can be measured reliably. Provisions are reviewed at each reporting date and adjusted to reflect current best estimate.

Contingent liabilities

A contingent liability is disclosed when the Group has a possible obligation as a result of past event, whose existence will be confirmed only by the occurrence or non-occurrence, of one or more uncertain future events not wholly within the control of the Group; or the Group has a present legal or constructive obligation that arises from past events, but is not probable that an outflow of the resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Employees' end of service benefits

The Group provides end of service compensation to its employees in accordance with the provisions of the Labor Law applicable in the Kingdom of Saudi Arabia. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Provision is made annually based on valuation done by an independent professional actuary, in accordance with the requirements of IAS 19 "Employee Benefits" using Projected Unit Credit Method. Last valuation was carried out on 31 December 2018.

All past service costs are recognized as an expense immediately. All actuarial gains and losses on defined benefit obligation are recognized in consolidated statement of comprehensive income.

Zakat and taxes

Zakat is provided for on behalf of the Group 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 profit or loss and consolidated statement of comprehensive income.

Deferred income tax is provided for foreign subsidiaries subject to tax, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized, or the liability is settled, based on laws that have been enacted in the respective countries at the reporting date.

Dividends

Final dividends are recognized as a liability at the time of their approval by the General Assembly. Interim dividends are recorded when approved by the Board of Directors.

Revenue

Revenue arises mainly from the sale of gold and revenue from operations. To determine whether to recognise revenue, the Group follows a 5-steps process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue (continued)

The Group often enters into transactions involving a range of the Group's products and services. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognized at a point in time, when the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Revenue from Gold

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

Revenue from gold and cost of revenue from gold are equal and offsetting each other as the gold used in jewelries sold to customers is valued at the international gold prices prevailing on the date of each transaction, without adding any margin.

Revenue from Operations

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

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

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 statement of financial position date are translated into Saudi Riyals using the exchange rates prevailing at that date. Realized and unrealized exchange differences on foreign currencies are recognized in the consolidated statement of profit or loss.

Translation of foreign operations

Financial statements of the foreign subsidiaries are translated into Saudi Riyals using the exchange rates at each consolidated statement of financial position date, for assets and liabilities, and the average exchange rates for each period for revenue, 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 in consolidated statement of comprehensive income as a separate component of the shareholders' equity.

Expenses

Selling and marketing expenses are those which specifically relate to marketing and promotional activities. All other expenses are classified as general and administration expenses and cost of services.

Operating leases

Operating lease payments are recognized as expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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5. 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, except for gold inventory, are revalued at the market price ruling at the consolidated statement of financial position date. All realized gains and losses and unrealized gains and losses from revaluation of gold related items are recognized in the consolidated statement of profit or loss.

Basic and diluted earnings per share

The Group presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the net income or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the net income or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of dilutive potential ordinary shares, if any.

Segmental reporting

A segment is a distinguishable component of an entity that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

6. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

6.1 New Standards adopted as at 1 January 2018

(A) IFRS 15 Revenue from Contracts with Customers

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

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

(B) IFRS 9 Financial Instruments

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

i) Classification and measurement of Financial Assets and Financial Liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

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6. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

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

(B) IFRS 9 Financial Instruments (continued)

The adoption of IFRS 9 does not have a significant effect on the Group's accounting policies related to financial assets and financial liabilities and the classification of financial assets. Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held in a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

- Financial assets at FVTPL: These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
- Financial assets at amortized cost: These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment loss. Interest income, foreign exchange gains and losses and impairments are recognized in profit or loss. Any gains or losses on derecognition is recognized in profit or loss.

ii) Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets carried at amortized cost by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The impairment methodology applied depends on whether there has been a significant increase in credit risk since initial recognition.

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

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6. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

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

ii) Impairment of financial assets (continued)

Credit-impaired financial assets

For all other financial assets, the Group applies the general approach to calculate impairment. Lifetime ECL is recognized when there has been a significant increase in credit risk since initial recognition and 12-month ECL is recognized when the credit risk on the financial instrument has not increased significantly since initial recognition.

Presentation of impairment

The Group recognizes an impairment loss or reversals in the consolidated statement of profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss provision for credit losses.

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

iii) Transition

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

6.1 New Standards issued but not yet effective

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. However, the Group has not yet early adopted them in preparing these consolidated financial statements.

a) IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

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

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7. PROPERTY AND EQUIPMENT

	Land SAR	Buildings SAR	Machinery and equipment SAR	Furniture and fixtures SAR	Motor vehicles SAR	Office equipment SAR	Tools, dies and other assets SAR	Leasehold improvements SAR	Construction work in progress SAR	Total 2018 SAR
Cost:										
At the beginning of the year	321,399	69,684,136	68,072,456	15,071,533	8,843,273	19,200,103	12,782,745	26,186,365	12,451,650	232,613,660
Reclassifications	-	12,945,909	14,839	25,116	192	1,443,343	(14,983)	1,633,842	(14,317,886)	1,730,372
Additions	-	11,675,099	2,340,693	379,337	708,278	2,990,543	300,295	5,512,802	(11,705,610)	12,201,437
Acquisition through business combination (refer note 32)	-	-	-	5,956,879	-	607,571	-	9,063,542	280,176	15,908,168
Disposals	-	-	(3,790,770)	(60,091)	(1,437,121)	(367,248)	-	(2,204,327)	(39,314)	(7,898,871)
Currency translation differences	(1,525)	(67,913)	(76,195)	(9,262)	(5,670)	(45,353)	(8,635)	(51,419)	(26,581)	(292,553)
At the end of the year	319,874	94,237,231	66,561,023	21,363,512	8,108,952	23,828,959	13,059,422	40,140,805	(13,357,565)	254,262,213
Accumulated depreciation:										
At beginning of the year	-	40,956,957	53,390,701	13,824,289	7,914,958	16,472,862	11,118,809	11,823,167	-	155,501,743
Reclassifications	-	1,270,809	(144)	(463)	192	(15,701)	-	475,679	-	1,730,372
Depreciation charge for the year	-	1,245,401	2,325,084	676,937	710,038	1,421,738	275,195	4,665,923	-	11,320,316
Relating to disposals	-	-	(2,820,326)	(59,618)	(1,437,114)	(334,742)	-	(1,670,421)	-	(6,322,221)
Currency translation differences	-	(4,954)	(17,982)	(6,051)	(4,205)	(27,548)	(5,872)	(16,040)	-	(82,652)
At the end of the year	-	43,468,213	52,877,333	14,435,094	7,183,869	17,516,609	11,388,132	15,278,308	-	162,147,558
Net book value:										
As at 31 December 2018	319,874	50,769,018	13,683,690	6,928,418	925,083	6,312,350	1,671,290	24,862,497	(13,357,565)	92,114,655

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7. PROPERTY AND EQUIPMENT (continued)

	Land SAR	Buildings SAR	Machinery and equipment SAR	Furniture and fixtures SAR	Motor vehicles SAR	Office equipment SAR	Tools, dies and other assets SAR	Leasehold improvements SAR	Construction work in progress SAR	Total 2017 SAR
Cost:										
At the beginning of the year	317,230	69,820,962	65,070,609	14,880,459	9,275,845	17,913,254	12,635,334	20,226,354	4,603,238	214,743,285
Additions	-	16,424	3,515,533	238,235	258,467	1,307,314	129,958	5,895,041	11,290,113	22,651,085
Transfer to other current assets	-	-	-	-	-	-	-	-	(1,227,569)	(1,227,569)
Disposals	-	(184,343)	(648,727)	(68,569)	(705,445)	(100,146)	-	-	(2,312,788)	(4,020,018)
Currency translation differences	4,169	31,093	135,041	21,408	14,406	79,681	17,453	64,970	98,656	466,877
At the end of the year	321,399	69,684,136	68,072,456	15,071,533	8,843,273	19,200,103	12,782,745	26,186,365	12,451,650	232,613,660
Accumulated depreciation:										
At beginning of the year	-	39,704,225	51,308,411	13,442,146	7,724,458	15,053,641	11,113,651	8,242,336	-	146,588,868
Reclassifications	-	-	265,541	-	-	-	(265,541)	-	-	-
Depreciation charge for the year	-	1,258,284	2,079,710	405,727	886,531	1,447,793	258,354	3,561,279	-	9,897,678
Relating to disposals	-	(18,281)	(284,653)	(37,415)	(705,439)	(85,707)	-	-	-	(1,131,495)
Currency translation differences	-	12,729	21,692	13,831	9,408	57,135	12,345	19,552	-	146,692
At the end of the year	-	40,956,957	53,390,701	13,824,289	7,914,958	16,472,862	11,118,809	11,823,167	-	155,501,743

Net book value:

As at 31 December 2017	321,399	28,727,179	14,681,755	1,247,244	928,315	2,727,241	1,663,936	14,363,198	12,451,650	77,111,917
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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7. PROPERTY AND EQUIPMENT (continued)

	31 December 2018 SAR	31 December 2017 SAR
7.1 Depreciation charge for the year has been allocated as follows:		
Cost of sales	4,062,346	4,143,765
Selling and marketing expenses	5,982,350	4,398,034
General and administrative expenses	1,275,620	1,355,879
	<u>11,320,316</u>	<u>9,897,678</u>

8. INTANGIBLE ASSETS AND GOODWILL

	Notes	31 December 2018 SAR	31 December 2017 SAR
Franchise and computer software	8.1	1,472,506	633,861
Goodwill	32	<u>140,942,201</u>	<u>-</u>
		<u>142,414,707</u>	<u>633,861</u>
8.1 Franchise and computer software:		31 December 2018 SAR	31 December 2017 SAR
Gross carrying amount:			
1 January - Reclassification		7,050,128	6,759,246
Additions		1,256,260	283,902
Foreign exchange differences		(3,213)	6,980
31 December		<u>8,303,175</u>	<u>7,050,128</u>
Accumulated amortization:			
1 January - Reclassification		6,416,267	6,176,227
Charge for the year		417,036	234,877
Foreign exchange differences		(2,634)	5,163
31 December		<u>6,830,669</u>	<u>6,416,267</u>
Net carrying amount at 31 December		<u>1,472,506</u>	<u>633,861</u>

9. INVENTORIES

	31 December 2018 SAR	31 December 2017 SAR
By main components:		
Gold	625,095,633	740,512,632
Diamonds, stones and pearls	155,106,291	164,095,415
Other materials and accessories	21,900,285	22,306,700
	<u>802,102,209</u>	<u>926,914,747</u>
Less: Provision for melting and slow-moving items	<u>(13,246,470)</u>	<u>(11,882,841)</u>
	<u>788,855,739</u>	<u>915,031,906</u>
By stage of completion:		
Finished goods	437,872,395	480,155,414
Raw materials	363,624,458	445,616,231
Work in progress	605,356	1,143,102
	<u>802,102,209</u>	<u>926,914,747</u>
Less: Provision for melting and slow-moving items	<u>(13,246,470)</u>	<u>(11,882,841)</u>
	<u>788,855,739</u>	<u>915,031,906</u>

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9. INVENTORIES (continued)

The movement in provision for melting and slow-moving inventory items is as follows:

		31 December 2018 SAR	31 December 2017 SAR
Balance at 1 January		11,882,841	16,894,945
Charge for the year	21	9,629,809	2,873,045
Utilization during the year		(8,266,180)	(7,952,984)
Foreign exchange differences		-	67,835
Balance at 31 December		13,246,470	11,882,841

10. ACCOUNTS RECEIVABLE

		31 December 2018 SAR	31 December 2017 SAR
Accounts receivable - Gross		582,677,816	469,267,439
Provision for expected credit losses		(12,189,152)	(9,720,488)
Accounts receivable - Net		570,488,664	459,546,951

Accounts receivable originate from offering term facilities to the Group's wholesale customers to pay their commitments, including the value of the gold purchased. These credit terms are in response to the demand of Group's wholesale customers and are considered to be in compliance with Shariaa provisions according to a number of Shariaa Scholars and the conclusion of the meetings between these Scholars and the Group's management. Credit sales are only offered to the Group's wholesale customers and not retail customers.

The Group recognizes a provision for expected credit losses based on the ageing of its overdue accounts receivable. This provision increases as the accounts receivable become more overdue, as historical experience indicates that the likelihood of amounts being irrecoverable increases with the increase in age of accounts receivable. See note 30.1 (b) on ageing analysis and credit risk of accounts receivable, which explains how the Group manages and measures credit quality of accounts receivable.

Movement in the provision for expected credit losses is as follows:

		31 December 2018 SAR	31 December 2017 SAR
At the beginning of the year		9,720,488	9,720,486
Charge for the year/ (reversal)	22	2,504,441	(302,697)
Amounts recovered during the year		-	265,860
Foreign exchange differences		(35,777)	36,839
At the end of the year		12,189,152	9,720,488

11. OTHER CURRENT ASSETS

		31 December 2018 SAR	31 December 2017 SAR
Prepayments		20,770,421	14,371,528
Advance to suppliers		8,097,565	6,419,465
Advance to employees		3,356,299	3,297,457
Other receivables		6,898,842	2,711,207
		39,123,127	26,799,657

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12. CASH AND CASH EQUIVALENTS

	Note	31 December 2018 SAR	31 December 2017 SAR
Cash in hand		16,868,120	12,679,778
Cash at bank		28,676,687	43,634,260
Short term deposits	12.1	2,188,230	1,117,771
		<u>47,733,037</u>	<u>57,431,809</u>

12.1 Short term deposits include various deposits placed with commercial banks and have maturity period ranging from a week to a month.

13. SHARE CAPITAL

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

14. STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies and Company's By-Laws, 10% of the net income for the year has been transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of its capital. The reserve is not available for distribution to the shareholders.

15. LONG TERM MURABAHA FACILITY

	31 December 2018 SAR	31 December 2017 SAR
Long-term murabaha facility	108,000,000	-
Less: current portion	14,000,000	-
Non-current portion	<u>94,000,000</u>	<u>-</u>

The Group has obtained a murabaha finance facility from a bank to finance the acquisition of Izdiad Commercial Company of Arabia (refer note 32). The facility is for a period of seven years at profit rate of SAIBOR plus an agreed rate with bank and payable in semi-annual installments.

16. EMPLOYEES' END OF SERVICE BENEFITS

General description

The Group's policy provides for end of service benefits for all employees who complete the qualifying period of service in accordance with the Labor laws.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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16. EMPLOYEES' END OF SERVICE BENEFITS (continued)

The movements in employees' end of service benefits during the year are as follows:

	Note	31 December 2018 SAR	31 December 2017 SAR
At the beginning of the year		37,637,949	32,289,166
On acquisition through business combination	32	557,014	-
Charge for the year		4,507,767	4,435,178
Payments during the year		(5,737,518)	(3,751,554)
Actuarial (gain)/ loss		(4,311,996)	4,656,768
Foreign exchange differences		(8,030)	8,391
At the end of the year		32,645,186	37,637,949
Principal actuarial assumptions			
Financial assumptions:			
Discount rate		4.4% - 16.75%	2.95% - 18.75%
Salary increase		0% - 10.0%	3.25% - 10.0%
Demographic assumption:			
Rates of employee turnover		Moderate	Heavy
Cost recognized in consolidated statement of profit or loss:			
Service costs:			
• Current service cost		3,247,170	3,315,533
• Interest cost on defined benefit obligation		1,260,597	1,119,645
		4,507,767	4,435,178

17. DEFERRED TAX LIABILITY – NET

Deferred tax liability relates to taxable temporary differences on property and equipment as follows:

	31 December 2018 SAR	31 December 2017 SAR
At the beginning of the year	555,171	557,998
Charge for the year	575,577	(13,736)
Foreign exchange differences	(148,022)	10,909
At the end of the year	982,726	555,171

18. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

	Note	31 December 2018 SAR	31 December 2017 SAR
Accounts payable		25,154,319	23,857,408
Accrued expenses		16,891,186	16,071,539
Accrued financial costs		2,677,116	944,140
Employees payables		2,193,415	1,763,042
Amount due to related parties	28	511,387	494,625
Dividends payable		14,874	14,874
Other payables		3,008,992	2,314,117
		50,451,289	45,459,745

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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19. SHORT-TERM MURABAHA FACILITIES

	Notes	31 December 2018 SAR	31 December 2017 SAR
Murabaha facilities (Gold)	19.1	1,024,731,614	1,106,172,386
Cash facilities (Tawaruq)	19.2	67,000,000	28,000,000
		<u>1,091,731,614</u>	<u>1,134,172,386</u>

19.1 The Group has Islamic Murabaha facilities to obtain gold from various banks to finance gold working capital requirements, with maturity periods ranging from 1 to 3 months (2017: 1 to 3 months) with agreed profit rates. All of these financial facilities are compliant with Shariah principles as per sharia certificates issued by banks' internal Sharia Committees.

19.2 Represents Islamic Tawaruq cash facilities from various banks solely to finance working capital requirements of the Group, with agreed profit rates and maturity periods ranging from 1 to 6 months.

20. REVENUE

Revenue includes revenue from gold and revenue from operations. Revenue from gold relates to the value of gold weight used in generating the operating revenues from wholesale channels. The presentation of revenue from gold serves as statistical information only as the Group does not generate any profit or loss from selling gold through wholesale channels. While revenue from operations relates to the value-added component of the jewelry piece, namely labor service charge revenue, value of additions and other sources of revenue generated through wholesale channels and gold and diamond jewelry sold in retail channels, which represent the real revenue of the Group.

Revenue from operations can be analyzed as follows:

	31 December 2018		31 December 2017	
	SAR	% of total	SAR	% of total
On cash basis	153,080,665	37.7%	130,342,112	36.7%
On credit basis	253,364,658	62.3%	225,031,472	63.3%
Total revenue from operations	<u>406,445,323</u>	<u>100%</u>	<u>355,373,584</u>	<u>100%</u>

21. COST OF OPERATIONS

	Notes	31 December 2018 SAR	31 December 2017 SAR
Raw material consumed		100,261,096	80,922,255
Salaries and employees' benefits		43,632,328	45,793,777
Depreciation	7.1	4,062,346	4,143,765
Melting costs and charge for slow-moving inventory	9	9,629,809	2,873,045
Other		4,783,371	4,159,357
		<u>162,368,950</u>	<u>137,892,199</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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22. SELLING AND MARKETING EXPENSES

		31 December 2018 SAR	31 December 2017 SAR
Salaries and employees' benefits		30,144,699	24,118,089
Advertisements and promotional activities		21,467,819	12,411,203
Gold calibration costs		28,294,159	27,667,631
Sales commissions		13,888,267	11,199,759
Rent	29	18,442,562	15,342,633
Depreciation	7.1	5,982,350	4,398,034
Provision for expected credit losses	10	2,504,441	(302,697)
Travel expenses		1,402,004	1,384,626
Insurance expenses		909,614	816,272
Other expenses		8,774,018	7,541,942
		131,809,933	104,577,492

23. GENERAL AND ADMINISTRATIVE EXPENSES

		31 December 2018 SAR	31 December 2017 SAR
Salaries and employees' benefits		31,045,597	27,246,285
Consultancy and professional fees		2,272,738	2,017,501
Depreciation	7.1	1,275,620	1,355,879
Travel expenses		1,625,732	1,717,834
Printing, stationery and communication expenses		805,307	821,947
Repairs and maintenance expenses		539,100	651,247
Other expenses		4,774,910	3,824,885
		42,339,004	37,635,578

24. OTHER EXPENSES - NET

	31 December 2018 SAR	31 December 2017 SAR
Loss from foreign exchange differences-net	656,029	276,415
Gain on disposal of property, plant and equipment	(39,648)	(606,804)
Bank charges	979,497	1,003,509
Miscellaneous	2,762,274	(138,626)
	4,358,152	534,494

25. FINANCE COSTS - NET

	31 December 2018 SAR	31 December 2017 SAR
Financing costs	34,333,125	29,620,797
Interest on employees' end of service benefits	1,260,597	1,119,645
	35,593,722	30,740,442

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26. ZAKAT AND INCOME TAX

Zakat charge

Zakat charge for the year amounts to SAR 10.7 million (2017: SAR 10.6 million). The Zakat base is as follows:

	31 December 2018 SAR	31 December 2017 SAR
Equity	404,657,610	381,416,032
Opening provisions and other adjustments	214,067,039	59,192,581
Book value of long-term assets	(235,604,814)	(78,745,273)
	383,119,835	361,863,340
Zakatable income for the year	46,617,580	51,668,518
Zakat base	429,737,415	413,531,858

Status of zakat assessments

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

Income tax charge

The income tax charge for the year consists of the following:

	31 December 2018 SAR	31 December 2017 SAR
Income tax	1,015,211	1,850,115
Deferred tax	575,577	(13,736)
	1,590,788	1,836,379

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

Status of income tax assessments related to foreign subsidiaries

ORO, registered in Arab Republic of Egypt, was exempt from Corporate Income Tax until 31 December 2014 according to the Egyptian Law number 8 of the year 1997. ORO received tax assessments and settled its tax liabilities on non-exempt activities till the year 2014. ORO paid all taxes due on its non-exempt activities to date.

LCJ Egypt, registered in Arab Republic of Egypt, is exempt from income tax on its commercial and manufacturing operations for a period of 10 years ended December 2018.

L'azurde Company for Jewellery LLC ("LCJ Qatar"), registered in the State of Qatar, filed its tax return for year 2017 and the tax assessments for the company have been finalized up to year ended 31 December 2015.

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

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26. EARNINGS PER SHARE - BASIC AND DILUTED

	31 December 2018	31 December 2017
Basic and diluted earnings per share		
Net profit for the year attributable to equity holders of the parent (in SAR)	<u>17,665,938</u>	<u>31,543,923</u>
Weighted average number of ordinary shares during the year	<u>43,000,000</u>	<u>43,000,000</u>
Basic and diluted earnings per share (in SAR)	<u>0.41</u>	<u>0.73</u>

There is no dilution effect on the basic earnings per share of the Group as the Group has no convertible dilutive potential ordinary shares outstanding on 31 December 2018 (31 December 2017: Nil).

28. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

		Nature of transactions		Amount of transactions		Balances	
				December 2018 SAR	December 2017 SAR	December 2018 SAR	December 2017 SAR
<u>Due from related parties:</u>							
Parent:							
L'azurde Holding Company	Costs recharged, and amounts collected by the Company			250,444	144,000	-	-
<u>Due to related parties:</u>							
Other affiliates:							
Board of Directors	Remuneration			1,502,557	1,514,426	385,762	369,000
Director	Consultancy			502,500	502,500	125,625	125,625
				<u>2,005,057</u>	<u>2,016,926</u>	<u>511,387</u>	<u>494,625</u>
Remuneration to key management personnel:							
				31 December 2018 SAR	31 December 2017 SAR		
Salaries				5,041,790	5,396,172		
Allowances				2,274,348	2,090,844		
Short-term incentive plans				2,093,500	1,174,906		
				<u>9,409,638</u>	<u>8,661,922</u>		

29. CONTINGENCIES AND COMMITMENTS

Contingencies:

The Group issued letters of guarantees amounting to SAR 3.4 million as at 31 December 2018 (31 December 2017: SAR 2.4 million) in relation to its operations.

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29. CONTINGENCIES AND COMMITMENTS (continued)

Capital commitments:

The Group has capital commitments in respect of capital expenditures amounting to SAR 0.8 million as at 31 December 2018 (31 December 2017: SAR 4.2 million).

Operating lease commitments:

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

	31 December 2018 SAR	31 December 2017 SAR
Within one year	28,309,014	16,175,189
After one year but not more than five years	42,541,702	16,698,409
More than five years	4,906,655	3,572,738
	75,757,371	36,446,336

Operating lease commitments have increased mainly due to acquisition of Izdiad Commercial Company of Arabia.

30. FINANCIAL INSTRUMENTS

30.1 Risk Management of Financial Instruments

The Group activities expose it to variety of financial risks; market risk (including gold price risk, currency risk and interest rate risk), liquidity risk and credit risk. The Group's overall risk management program focuses on the predictability of financial market and seeks to minimize potential adverse effect on the Group's financial performance. The Group's senior management carries out risk management under governance framework.

a) Gold price risk

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

	31 December 2018		31 December 2017	
<u>Net gold (liabilities)/ asset</u>	SAR	Grams (24 Karat)	SAR	Grams (24 Karat)
Gold – inventories (non-financial asset)	561,079,720	3,631,128	720,839,680	4,611,609
Gold – receivables	463,590,849	3,000,211	385,390,878	2,465,558
Gold facilities	(1,024,731,614)	(6,631,709)	(1,106,172,386)	(7,076,770)
Net gold (liabilities)/ assets	(61,045)	(370)	58,172	397

b) 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.

The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables and maintains accounts with reputable, creditworthy banks.

The Group has established policies and procedures for timely recovery of accounts receivable and mitigates its exposure and credit risk by applying specific controls in accordance with the Group's policies and procedures.

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30. FINANCIAL INSTRUMENTS (continued)

30.1 Risk Management of Financial Instruments (continued)

b) Credit risk (continued)

The table below shows Group's maximum exposure to credit risk for the components of the consolidated statement of financial position:

	Notes	31 December 2018 SAR	31 December 2017 SAR
Other non-current assets		929,202	785,745
Accounts receivable	10	570,488,664	459,546,951
Other current assets	11	10,255,141	6,008,664
Cash at bank	12	30,864,917	44,752,031
Cash margins		101,528,790	110,141,983
		714,066,714	621,235,374

The Group continuously monitors the risk of defaults of customers and other counterparties, identified either individually or by group and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties.

Unimpaired accounts receivable is expected, on the basis of past experience, to be fully recoverable. It is the practice of the Group to obtain collaterals against accounts receivable, if possible.

As at 31 December, the ageing of unimpaired accounts receivable was as follows:

	31 December 2018 SAR	31 December 2017 SAR
Neither past due nor impaired	424,032,707	344,477,980
Past due but not impaired:		
a) Less than 180 days	129,015,462	99,246,777
b) 181 – 270 days	11,284,161	10,994,100
c) 271 – 360 days	1,848,805	2,168,038
d) 361 – 540 days	1,718,396	2,532,056
e) Greater than 540 days	2,589,133	128,000
	570,488,664	459,546,951

The geographical breakdown of the Group's accounts receivable balance is as follows:

	31 December 2018 SAR	31 December 2017 SAR
Kingdom of Saudi Arabia	359,709,745	244,673,084
Arab Republic of Egypt	177,160,722	160,355,313
United Arab Emirates	33,567,846	48,317,876
Others	50,351	6,200,678
Accounts receivable - Net	570,488,664	459,546,951

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30. FINANCIAL INSTRUMENTS (continued)

30.1 Risk Management of Financial Instruments (continued)

c) Currency risk

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. During the year, the Group undertook significant transactions in currencies other than Saudi Riyals such as US Dollars, Euros and Egyptian Pound. Management regularly monitors the fluctuations in currency exchange rates and the effect of currency rates have been accounted for in the consolidated financial statements. Since Saudi Riyal is on a fixed parity with the US Dollar and the Group does not have material net assets in Euros, the Group is exposed to currency risk due to Egyptian Pound only. The quantitative data regarding the Group's exposure to currency risk arising from Egyptian Pound is as follows:

	31 December 2018 SAR	31 December 2017 SAR
Cash and cash equivalents	16,958,697	9,108,455
Accounts receivable	17,822,292	14,194,843
Accounts payable and other current liabilities	(6,806,056)	(6,368,573)
Net statement of financial position exposure	27,974,933	16,934,725

A strengthening/ (weakening) of the Egyptian Pound by 1% against Saudi Riyal would have affected the measurement of financial instruments denominated in Egyptian Pound and would have increased/ (decreased) equity by SAR 276,980 at year ended 31 December 2018 (31 December 2017: SAR 167,671).

d) Market price risk

Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from gold risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The management is of the opinion that the Group's exposure to market price risk is minimal.

e) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. Following table represents the maturity profiles of the financial liabilities:

		0 - 12 months SAR	Over 12 months SAR	Total SAR
31 December 2018	Notes			
Financial liabilities:				
Long term murabaha facility	15	14,000,000	94,000,000	108,000,000
Long term payable		-	50,600,305	50,600,305
Accounts payable and other current liabilities	18	50,451,289	-	50,451,289
Short term murabaha facilities	19	1,091,731,614	-	1,091,731,614
Total		1,156,182,903	144,600,305	1,300,783,208
31 December 2017				
Financial liabilities:				
Accounts payable and other current liabilities	18	45,459,745	-	45,459,745
Short term murabaha facilities	19	1,134,172,386	-	1,134,172,386
Total		1,179,632,131	-	1,179,632,131

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30. FINANCIAL INSTRUMENTS (continued)

f) Capital Management

The Board's policy is to maintain an efficient capital base to maintain investors, creditors and market confidence and to sustain the future development of its business. The Board of directors monitor the return on capital employed and the level of dividends to its shareholders.

The Group's objectives when managing capital are:

- a) to safeguard the entity's ability to continue as a going concern; and
- b) to provide adequate return to shareholders.

30.2 Fair value of financial assets and financial liabilities

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2018:

	Fair value (in SAR)			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Accounts receivable	463,590,849	-	-	463,590,849
Financial liabilities:				
Short term murabaha facilities	1,024,731,614	-	-	1,024,731,614

31 December 2017:

	Fair value (in SAR)			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Accounts receivable	385,390,878	-	-	385,390,878
Financial liabilities:				
Short term murabaha facilities	1,106,172,386	-	-	1,106,172,386

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31. SEGMENTAL INFORMATION

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

31 December 2018:	Wholesale SAR	Retail SAR	Total SAR
Revenues - Gold	1,505,917,472	-	1,505,917,472
- Operations	268,790,195	137,655,128	406,445,323
Gross profit	193,616,325	50,460,048	244,076,373
Net book value of property and equipment	63,581,254	28,533,401	92,114,655
Total assets	1,534,813,801	248,520,370	1,783,334,171
Total liabilities	(1,176,504,704)	(180,743,940)	(1,357,248,644)
31 December 2017:			
Revenues - Gold	1,397,133,899	-	1,397,133,899
- Operations	242,855,181	112,518,403	355,373,584
Gross profit	171,380,582	46,100,803	217,481,385
Net book value of property and equipment	64,018,822	13,093,095	77,111,917
Total assets	1,452,955,687	194,741,892	1,647,697,579
Total liabilities	(1,228,425,956)	(12,812,864)	(1,241,238,820)

32. BUSINESS COMBINATION

Acquisition of Izdiad Commercial Company of Arabia

On 1 November 2018, the Group acquired 100% of the equity instruments of Izdiad Commercial Company of Arabia ("Izdiad"), the sole-franchisee and operator of TOUS international franchise in KSA, and thereby obtained full control from 30 October 2018. This represented a major development for the Group with an objective to establish a strong presence in the affordable jewelry segment and to add a new source of growth and profitability. The details of the business combination are as follows:

	SAR
Fair value of consideration transferred:	
Amount settled in cash	135,000,000
Fair value of deferred consideration	50,469,837
Total	185,469,837
Recognized amounts of identifiable net assets:	
Property and equipment	15,908,168
Intangible assets	-
Total non-current assets	15,908,168
Inventories	35,156,003
Other current assets	5,285,686
Cash and cash equivalents	3,371,787
Total assets	59,721,644
Employees' end of service benefits	557,014
Total non-current liabilities	557,014
Accounts payable and other current liabilities	13,886,994
Zakat liability	750,000
Total liabilities	15,194,008

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32. BUSINESS COMBINATION (continued)

	<u>SAR</u>
Identifiable net assets	<u>44,527,636</u>
Goodwill arising on acquisition	<u>140,942,201</u>
Consideration transferred and settled in cash	(135,000,000)
Cash and cash equivalents acquired	<u>3,371,787</u>
Net cash outflow on acquisition	<u>(131,628,213)</u>

The total purchase consideration for acquisition of Izdiad was SAR 185.5 million out of which SAR 108 million was settled in cash through a murabaha cash facility taken by the Group from a financial institution and SAR 27 million was settled from Company's own cash resources. The amount of SAR 50.5 million represents fair value of the deferred consideration at the acquisition date, payable after four years. The fair value of this long-term payable at 31 December 2018 amounted to SAR 50.6 million.

Acquisition-related costs amounting to SAR 3.2 million are not included as part of consideration transferred and have been recognized as an expense in the consolidated statement of profit or loss, as part of other expenses.

The fair value of the identifiable net assets equals the carrying value of the net assets at the date of acquisition. Goodwill arising on acquisition of SAR 140.9 million is primarily due to growth expectations and expected future profitability of Izdiad.

From the date of acquisition, Izdiad contributed SAR 9.7 million of revenue and SAR 0.4 million to net profit of the Group. If the business combination had taken place at the beginning of 2018, the Group's consolidated revenues would have been higher by SAR 64.5 million and the consolidated net profit would have been higher by SAR 8.6 million.

33. DIVIDENDS

During 2018, one of the Group's subsidiary, ORO Egypt for Manufacturing Precious Metals, declared and paid dividends amounting to SAR 1,801,149 which equal to EGP 8,500,000.

On 13 Rajab 1438H (corresponding to 10 April 2017), the Group approved cash dividends amounting to SAR 21,500,000 for the year ended 31 December 2016 in its Annual General Assembly. Dividends were paid on 28 Rajab 1438H (corresponding to 25 April 2017).