

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

**REVIEWED INTERIM CONDENSED  
CONSOLIDATED FINANCIAL  
STATEMENTS AND REVIEW REPORT  
FOR THE THREE MONTHS PERIOD  
ENDED 31 MARCH 2019**

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

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

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## Independent auditor's review report

To the shareholders of L'azurde Group for Jewelry and its Subsidiaries

(A Saudi Joint Stock Group)

Riyadh, Saudi Arabia

## Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of **L'azurde Company for Jewelry and its Subsidiaries (a Saudi joint stock Company) (the "Group")** as at 31 March 2019 and the related interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of other comprehensive income for the three-months period ended 31 March 2019 and the interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three-month period then ended and the related notes (1) to (14) which form an integral part of these interim condensed consolidated financial information. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting', as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', as endorsed in the Kingdom of Saudi Arabia. A review of interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting' as endorsed in the Kingdom of Saudi Arabia.

Riyadh 19 Sha'ban 1440  
Corresponding to 24 April 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)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2019**

	Notes	31 March 2019 (Unaudited) SAR	31 December 2018 (Audited) SAR
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property and equipment		90,676,555	92,114,655
Right-of-use assets	4.1	67,205,074	-
Intangible assets and goodwill		142,417,634	142,414,707
Other non-current assets		1,106,343	1,075,452
<b>Total Non-Current Assets</b>		<b>301,405,606</b>	<b>235,604,814</b>
<b>Current Assets</b>			
Inventories		762,530,387	788,855,739
Accounts receivable	5	777,071,731	570,488,664
Other current assets		38,061,284	39,123,127
Cash margins		121,016,503	101,528,790
Cash and cash equivalents		38,059,116	47,733,037
<b>Total Current Assets</b>		<b>1,736,739,021</b>	<b>1,547,729,357</b>
<b>TOTAL ASSETS</b>		<b>2,038,144,627</b>	<b>1,783,334,171</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	6	430,000,000	430,000,000
Statutory reserve		22,186,724	22,186,724
Retained earnings		161,888,607	149,927,579
Foreign currency translation reserve		(173,294,429)	(176,028,776)
<b>Total Equity</b>		<b>440,780,902</b>	<b>426,085,527</b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Long term murabaha facility	7	85,000,000	94,000,000
Employees' end of service benefits		32,680,283	32,645,186
Lease liabilities	4.1	36,307,549	-
Deferred tax liability		1,161,703	982,726
Long term payable		50,790,293	50,600,305
<b>Total Non-Current Liabilities</b>		<b>205,939,828</b>	<b>178,228,217</b>
<b>Current Liabilities</b>			
Accounts payable and other current liabilities		61,944,947	50,451,289
Current portion of long-term murabaha facility	7	16,000,000	14,000,000
Current portion of lease liabilities	4.1	25,329,736	-
Short-term murabaha facilities	8	1,259,712,991	1,091,731,614
Zakat and income tax liability		28,436,223	22,837,524
<b>Total Current Liabilities</b>		<b>1,391,423,897</b>	<b>1,179,020,427</b>
<b>Total Liabilities</b>		<b>1,597,363,725</b>	<b>1,357,248,644</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,038,144,627</b>	<b>1,783,334,171</b>

  
**Ayman Gamil**  
Chief Financial Officer

  
**Selim Chidiac**  
Chief Executive Officer

  
**Sunil Bhillotra**  
Authorized Board Member


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




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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

	Notes	31 March 2019 (Unaudited) SAR	31 March 2018 (Unaudited) SAR
<b>REVENUE</b>			
Gold		520,512,783	439,604,152
Operations		153,016,840	115,029,248
		<u>673,529,623</u>	<u>554,633,400</u>
<b>COST OF REVENUE</b>			
Gold		(520,512,783)	(439,604,152)
Operations		(57,046,074)	(46,570,572)
		<u></u>	<u></u>
<b>GROSS PROFIT</b>		95,970,766	68,458,676
<b>OPERATING EXPENSES</b>			
Selling and marketing expenses		(53,560,277)	(34,638,137)
General and administrative expenses		(12,020,242)	(10,780,794)
<b>OPERATING PROFIT</b>		<u>30,390,247</u>	<u>23,039,745</u>
<b>OTHER EXPENSES</b>			
Other expenses – net		(599,629)	(1,991,594)
Finance costs – net		(12,138,800)	(8,552,672)
		<u></u>	<u></u>
<b>NET PROFIT BEFORE ZAKAT AND TAX</b>		17,651,818	12,495,479
Zakat	9	(3,442,201)	(3,044,203)
Income tax	9	(2,248,589)	(422,143)
		<u></u>	<u></u>
<b>NET PROFIT FOR THE PERIOD</b>		<u>11,961,028</u>	<u>9,029,133</u>
<b>NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Equity holders of the parent		<u>11,961,028</u>	<u>9,029,133</u>
<b>EARNINGS PER SHARE:</b>			
Basic	10	0.28	0.21
Diluted	10	<u>0.28</u>	<u>0.21</u>

  
**Ayman Gamal**  
 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)**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF  
OTHER COMPREHENSIVE INCOME  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

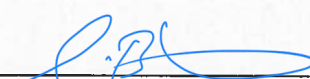
	<b>31 March 2019 (Unaudited) SAR</b>	<b>31 March 2018 (Unaudited) SAR</b>
<b>NET PROFIT FOR THE PERIOD</b>	11,961,028	9,029,133
<b>OTHER COMPREHENSIVE INCOME</b>		
Items that will not be reclassified subsequently to profit or loss Re-measurement on employees' end of service benefits	-	2,955,335
Items that will be reclassified subsequently to profit or loss Exchange differences on translation of foreign operations	2,734,347	569,491
<b>Other comprehensive income for the period – net of tax</b>	<u>2,734,347</u>	<u>3,524,826</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<u>14,695,375</u>	<u>12,553,959</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:</b>		
Equity holders of the parent	<u>14,695,375</u>	<u>12,553,959</u>



**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)**

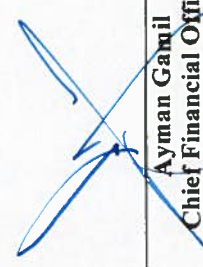
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

**THREE MONTHS PERIOD ENDED 31 MARCH 2019**

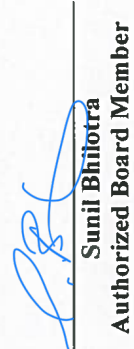
	Share Capital (Unaudited)	Statutory Reserve (Unaudited)	Retained Earnings (Unaudited)	Foreign Currency Translation Reserve (Unaudited)	Total (Unaudited)
Balance at 1 January 2019 (Audited)	430,000,000	22,186,724	149,927,579	(176,028,776)	426,085,527
Net profit for the period	-	-	11,961,028	-	11,961,028
Other comprehensive income for the period	-	-	-	2,734,347	2,734,347
Total comprehensive income for the period	-	-	11,961,028	2,734,347	14,695,375
Balance at 31 March 2019 (Unaudited)	430,000,000	22,186,724	161,888,607	(173,294,429)	440,780,902

**THREE MONTHS PERIOD ENDED 31 MARCH 2018**

Balance at 1 January 2018 (Audited)	430,000,000	20,420,130	131,517,388	(175,478,759)	406,458,759
Net profit for the period	-	-	9,029,133	-	9,029,133
Other comprehensive income for the period	-	-	2,955,335	569,491	3,524,826
Total comprehensive income for the period	-	-	11,984,468	569,491	12,553,959
Balance at 31 March 2018 (Unaudited)	430,000,000	20,420,130	143,501,856	(174,909,268)	419,012,718

  
**Ayman Gamil**  
Chief Financial Officer

  
**Selim Chidiac**  
Chief Executive Officer

  
**Sunil Bhiotra**  
Authorized Board Member

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

	31 March 2019 (Unaudited) SAR	31 March 2018 (Unaudited) SAR
<b>OPERATING ACTIVITIES</b>		
Net profit before zakat and tax	17,651,818	12,495,479
<b>Adjustments to reconcile net profit before zakat and tax to net cash from operating activities:</b>		
Depreciation of property and equipment	4,119,066	2,622,468
Depreciation of right-of-use assets	6,314,491	-
Amortization of intangible assets	157,208	73,383
Provision for employees' end of service benefits	1,297,603	1,233,656
Provision for expected credit losses	(89,908)	1,176,392
Finance costs – net	12,138,801	8,552,672
Loss/ (gain) on sale of property and equipment	951,016	(373,068)
Melting costs and charge for slow moving inventory	1,990,174	3,224,963
Foreign currency exchange differences - net	(16,546)	(687,016)
<b>Operating income before changes in working capital</b>	<b>44,513,723</b>	<b>28,318,929</b>
<b>Net changes in working capital:</b>		
Accounts receivable	(206,493,159)	(152,235,464)
Inventories	25,968,554	118,160,897
Other current assets	(4,205,750)	(3,927,896)
Accounts payable and other current liabilities	12,312,505	(2,878,218)
Short term murabaha facilities	151,981,377	11,258,990
<b>Cash generated from/ (used in) operating activities</b>	<b>24,077,250</b>	<b>(1,302,762)</b>
Employees' end of service benefits paid	(1,302,379)	(1,513,279)
Finance costs paid	(13,633,197)	(8,911,017)
Income taxes paid	(66,477)	(25,208)
<b>Net cash generated from/ (used in) operating activities</b>	<b>9,075,197</b>	<b>(11,752,266)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(2,636,084)	(3,225,154)
Proceeds from sale of property and equipment	38,103	1,007,747
Purchase of intangible assets	(156,996)	(41,820)
Other non-current assets	(30,891)	(37,921)
<b>Net cash used in investing activities</b>	<b>(2,785,868)</b>	<b>(2,297,148)</b>
<b>FINANCING ACTIVITIES</b>		
Cash facilities (Tawaruq)	16,000,000	34,000,000
Long-term murabaha facility	(7,000,000)	-
Repayments of lease liabilities	(5,938,510)	-
Cash margins	(19,487,713)	(42,979,312)
<b>Net cash used in financing activities</b>	<b>(16,426,223)</b>	<b>(8,979,312)</b>
<b>Net change in cash and cash equivalents</b>	<b>(10,136,894)</b>	<b>(23,028,726)</b>
Cash and cash equivalents at beginning of the period	47,733,037	57,431,809
Exchange differences on cash and cash equivalents	462,973	56,233
<b>Cash and cash equivalents at end of the period</b>	<b>38,059,116</b>	<b>34,459,316</b>

  
**Ayman Gamil**  
**Chief Financial Officer**

  
**Selim Chidiac**  
**Chief Executive Officer**

  
**Sunil Bhilotra**  
**Authorized Board Member**

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



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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

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**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

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

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

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

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

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

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

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

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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 no. 1010352574 dated 21 Dhul Qadah 1433H (corresponding to 6 October 2012). The principal activities of Kenaz are trading of gold and silver products and precious stones.

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

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

**i) L'azurde Jewellery LLC ("LJ Oman")**

LJ Oman is a Limited Liability Company registered in the Sultanate of Oman under Commercial Registration no. 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. On 1 November 2018, the Group acquired 100% of the equity instruments of Izdiad.

**2. BASIS OF PREPARATION**

**2.1 Statement of Compliance**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as endorsed in Kingdom of Saudi Arabia by Saudi Organization for Certified Public Accountants ("SOCPA") and other standards and pronouncements issued by SOCPA. The interim condensed financial statements should be read in conjunction with the Group's last annual audited consolidated financial statements as at and for the year ended 31 December 2018. They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to understand any material changes in Group's financial position and performance since the last annual financial statements.

This is the first set of interim condensed consolidated financial statements where IFRS 16 'Leases' has been applied. Changes to significant accounting policies have been disclosed in note 3.

The interim condensed consolidated financial statements for the period ended 31 March 2019 were approved and authorized for issue by the Board of Directors on 24 April 2019.

**2.2 Preparation of the Financial Statements**

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

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

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**2. BASIS OF PREPARATION (continued)**

**2.3 Use of Estimates and Judgments**

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019 and new transactions carried out during the period. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

During the three months period ended 31 March 2019, the Group has entered into islamic financial derivative 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. The forward contracts were settled during the period and there is no open exposure at the end of the period.

**Leases**

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct cost incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of lease liability comprise the following:

- fixed payments, including in-substance fixed payments; and
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of right-of-use asset or is recorded in profit or loss if the carrying amount of right-of-use asset has been reduced to zero.

**L'AZURDE COMPANY FOR JEWELRY AND ITS SUBSIDIARIES  
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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

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

**4.1 New Standards adopted as at 1 January 2019**

**IFRS 16 'Leases'**

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The new Standard has been applied using the modified retrospective approach from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new standard are therefore recognized in the opening statement of financial position on 1 January 2019.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16, the lease payments have been discounted using the incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	<u>SAR</u>
<b>Total operating lease commitments disclosed at 31 December 2018</b>	<b>79,782,785</b>
Recognition exemptions:	
• Leases with remaining lease term of less than 12 months	<u>(754,610)</u>
Operating lease liabilities before discounting	<b>79,028,175</b>
Discounted using incremental borrowing rate	<u>(11,713,121)</u>
<b>Total lease liabilities recognised under IFRS 16 at 1 January 2019</b>	<b><u>67,315,054</u></b>



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

**4.1 New Standards adopted as at 1 January 2019 (continued)**

**IFRS 16 'Leases' (continued)**

The recognized right-of-use assets relate to the following class of asset:

	<b>31 March 2019 (Unaudited) SAR</b>	<b>1 January 2019 (Unaudited) SAR</b>
Buildings - shops	<u>67,205,074</u>	<u>73,385,525</u>
Lease liabilities as at the end of the period are as follows:		
Non-current portion of lease liabilities	36,307,549	38,508,049
Current portion of lease liabilities	<u>25,329,736</u>	<u>28,807,005</u>
<b>Total lease liabilities</b>	<u><b>61,637,285</b></u>	<u><b>67,315,054</b></u>

The change in accounting policy affected the following line items in the condensed interim consolidated statement of financial position on 1 January 2019:

- Right-of-use asset – increased by SAR 73.39 million
- Prepayments – decreased by SAR 6.07 million
- Lease liabilities – increased by SAR 67.32 million

**4.2 New Standards issued but not yet effective**

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2020 and earlier application is permitted. However, the Group has not yet early adopted them in preparing these condensed interim consolidated financial statements.

**a) Annual Improvements to IFRSs 2015–2017 Cycle**

**IFRS 3 'Business Combinations'** – a company remeasures its previously held interest in a joint operation when it obtains control of the business.

**IFRS 11 'Joint Arrangements'** – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

**IAS 23 'Borrowing Cost'** – a company treats a part of general borrowings any borrowings originally made to develop an asset when the asset is ready for its intended use or sale.

**5. ACCOUNTS RECEIVABLE**

	<b>31 March 2019 (Unaudited) SAR</b>	<b>31 December 2018 (Audited) SAR</b>
Accounts receivable - Gross	789,597,092	582,677,816
Provision for expected credit losses	<u>(12,525,361)</u>	<u>(12,189,152)</u>
Accounts receivable - Net	<u><b>777,071,731</b></u>	<u><b>570,488,664</b></u>

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. Credit sales are only offered to the Group's wholesale customers and not retail customers.

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**6. SHARE CAPITAL**

The authorized and paid up share capital of the Group as at 31 March 2019 is SAR 430,000,000 (31 December 2018: SAR 430,000,000), divided into 43,000,000 shares as at 31 March 2019 (31 December 2018: 43,000,000 shares) with a face value of SAR 10 per share.

**7. LONG TERM MURABAHA FACILITY**

	<b>31 March 2019 (Unaudited) SAR</b>	<b>31 December 2018 (Audited) SAR</b>
Long-term murabaha facility	<b>101,000,000</b>	<b>108,000,000</b>
Less: current portion	<b>16,000,000</b>	<b>14,000,000</b>
Non-current portion	<b>85,000,000</b>	<b>94,000,000</b>

In the year 2018, the Group obtained a murabaha finance facility from a bank to finance the acquisition of Izdiad Commercial Company of Arabia. 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.

**8. SHORT-TERM MURABAHA FACILITIES**

	Notes	<b>31 March 2019 (Unaudited) SAR</b>	<b>31 December 2018 (Audited) SAR</b>
Gold facilities (Tawaruq)	8.1	<b>1,176,712,991</b>	1,024,731,614
Cash facilities (Tawaruq)	8.2	<b>83,000,000</b>	67,000,000
		<b>1,259,712,991</b>	<b>1,091,731,614</b>

**8.1** Total gold procurement facilities of the Group at 31 March 2019 amounted to SAR 1.3 billion compared to SAR 1.0 billion at 31 December 2018. All outstanding financial facilities agreements are in the form of Murabaha and Tawaruq agreements to finance the supply of pure gold.

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 (2018: 1 to 3 months) with agreed profit rates. All of these financial facilities are compliant with Shariaa principles as per Shariaa certificates issued by banks' internal Shariaa Committees including Murabaha facilities (Tawaruq) to finance the purchase of gold, as banks buy commodities other than gold or silver and then sell them to the Group on a credit basis. The Group then sells the goods to a third party, and the bank immediately buys the gold using cash sales proceeds of the commodity.

**8.2** 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.

**8.3** The breakup of outstanding financial facilities is stated below:

	<b>Facilities Value as at 31 March 2019 (Unaudited) SAR</b>	<b>31 December 2018 (Audited) SAR</b>
Type of Islamic Facilities		
Murabaha and Tawaruq	<b>499,450,240</b>	540,794,186
Murabaha and Tawaruq	<b>404,523,240</b>	210,646,107
Murabaha	<b>332,739,511</b>	330,291,321
Tawaruq	<b>23,000,000</b>	10,000,000
	<b>1,259,712,991</b>	<b>1,091,731,614</b>

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**9. ZAKAT AND INCOME TAX**

**Zakat for the period**

Zakat charge on the Group for the three months period ended 31 March 2019 amounted to SAR 3,442,201 (2018: SAR 3,044,203).

**Income taxes related to foreign subsidiaries for the period**

Income tax charges on subsidiaries for the three months period ended 31 March 2019 amounted to SAR 2,248,589 (2018: SAR 422,143).

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

**Status of zakat assessments**

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

**Status of income tax assessments related to foreign subsidiaries**

ORO, registered in Arab Republic of Egypt, was exempt from Corporate Income Tax until 31 December 2014 according to the Egyptian Law 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, was exempt from income tax on its commercial and manufacturing operations until 31 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 2015.

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

**10. EARNINGS PER SHARE - BASIC AND DILUTED**

	<b>31 March 2019 (Unaudited) SAR</b>	<b>31 March 2018 (Unaudited) SAR</b>
<b>Basic and diluted earnings per share</b>		
Net profit for the period attributable to equity holders of the parent (in SAR)	<b>11,961,028</b>	9,029,133
Weighted average number of ordinary shares during the period	<b>43,000,000</b>	43,000,000
Basic and diluted earnings per share (in SAR)	<b>0.28</b>	0.21

There is no dilution effect on the basic earnings per share of the Group as the Group has no convertible dilutive potential ordinary shares outstanding as at 31 March 2019 and 31 March 2018.

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**11. RELATED PARTY TRANSACTIONS AND BALANCES**

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

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

	<u>Nature of transactions</u>	<u>Amount of Transactions</u>		<u>Balances</u>	
		<u>31 March</u>	<u>31 March</u>	<u>31 March</u>	<u>31 December</u>
		<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
		<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
		<u>SAR</u>	<u>SAR</u>	<u>SAR</u>	<u>SAR</u>
<b><u>Other affiliates:</u></b>					
Board of Directors and key management personnel	Remuneration	2,322,058	2,128,889	394,603	385,762
Director	Consultancy fees	125,625	125,625	125,625	125,625
		<u>2,447,683</u>	<u>2,254,514</u>	<u>520,228</u>	<u>511,387</u>

**12. SEGMENT REPORTING**

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

<u>Three months ended 31 March 2019 (Unaudited)</u>	<u>Wholesale</u> <u>SAR</u>	<u>Retail</u> <u>SAR</u>	<u>Total</u> <u>SAR</u>
Revenues - Gold	520,512,783	-	520,512,783
- Operations	93,422,226	59,594,614	153,016,840
Gross profit	69,170,937	26,799,828	95,970,766
Property and equipment	63,653,554	27,023,001	90,676,555
Total assets	1,746,233,022	291,911,605	2,038,144,627
Total liabilities	(1,370,526,845)	(226,836,880)	(1,597,363,725)
<u>Three months ended 31 March 2018 (Unaudited)</u>	<u>Wholesale</u> <u>SAR</u>	<u>Retail</u> <u>SAR</u>	<u>Total</u> <u>SAR</u>
Revenues - Gold	439,604,152	-	439,604,152
- Operations	76,810,479	38,218,769	115,029,248
Gross profit	53,842,791	14,615,885	68,458,676
Property and equipment	64,368,896	12,931,585	77,300,481
Total assets	1,507,967,859	194,642,528	1,702,610,387
Total liabilities	(1,159,005,904)	(124,591,765)	(1,283,597,669)



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**13. FINANCIAL INSTRUMENTS**

**Fair value measurements of financial instruments**

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

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

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

	Fair Value (in SAR)			
	Level 1	Level 2	Level 3	Total
<b>31 March 2019 (Unaudited):</b>				
<b>Financial assets:</b>				
Accounts receivable	637,459,965	-	-	637,459,965
<b>Financial liabilities:</b>				
Short-term murabaha facilities	1,176,712,991	-	-	1,176,712,991
<b>31 December 2018 (Audited):</b>				
<b>Financial assets:</b>				
Accounts receivable	463,590,849	-	-	463,590,849
<b>Financial liabilities:</b>				
Short-term murabaha facilities	1,024,731,614	-	-	1,024,731,614

**14. COMPLIANCE WITH SHARIAA RULES**

The Group's Shariaa consultant, AlSayari Law Firm "AlSayari", issued the Shariaa review report dated 23 April 2019 for the first quarter of 2019, which included the review of the Group's banks facilities and transactions, revenues generated from sale of gold and investments made by the Group, where their conclusion, within the scope of the review, was that it did not reasonably show any significant observations affecting compliance of Group's activities and classifications with the Shariaa Standard no. (21) on "Financial Paper (Shares and Bonds)" issued by the Shariaa Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Following are the conclusions of the Shariaa consultant:

- a) The Group's main operations in gold and jewelry manufacturing is a Shariaa compliant activity in principle and there are no significant matters that affect the Shariaa classification of the Group.
- b) All credit facilities and financing availed by the Group from banks during the period of review are in compliance with Islamic Shariaa provisions.
- c) Cash sales through retail outlets and cash wholesale sales has no Shariaa compliance issues.

The scholars have different point of views on wholesale sales of gold jewelry on credit basis. The Group has relied on the Shariaa opinion which permits selling of gold jewelry on credit basis. This is the point of view of a group of scholars of Islamic jurisprudence, including Imam Ibn Taymiyah and his disciple Ibn al-Qayyim, which also includes a number of contemporary scholars, including a number of members of the Shariaa Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). This is one of the legitimate conclusions on dealing in the trade of gold jewelry and is not considered a breach of the Group's compliance with the Shariaa rules and does not affect the Shariaa classification of the Group's activities.